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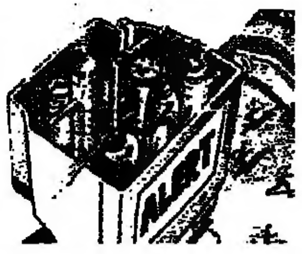

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WORLD NEWS

Portugal 'set to meet criteria' for joining EU single currency

Portugal will qualify comfortably for membership of the European single currency, according to figures that prime minister Antonio Guterres will submit to the European Commission. The scale and speed of Portugal's achievement in disciplining its finances have surprised many economists. Page 14; Observer, Page 12

GPS may lose its bearings
Yachtsmen, hikers and drivers who rely on the worldwide Global Positioning System for navigation could lose their way in 2000 because of the millennium "bomb". Page 14

Mossad head quits
Danny Yatom, chief of Israeli intelligence agency Mossad, resigned after an inquiry blamed him for a botched assassination attempt on an Islamist official in Jordan. Page 6

No extra charge for euro
European banks have pledged not to charge their customers extra for converting domestic currencies into the euro after the EU single currency is introduced next year. Page 2

UN drug agency speaks out
The UN agency set up to fight narcotics has criticised western European societies for a drug-friendly culture where recreational drugs are seen as "chic and harmless". Page 6

Danish poll move
The chances of a change of government in Denmark increased when the Centre Democrat party said they would support a centre-right administration in the March general election. Page 2

US students flunk test
US students rank near the bottom of the international league in maths and science skills, said a study from Boston College. US secondary school pupils in the US only scored higher than three nations – Lithuania, Cyprus and South Africa. Page 5

Pledge on Channel link
UK deputy prime minister John Prescott has committed the government to building the £5.4bn ($9bn) Channel tunnel high speed rail link even if London & Continental Railways fails to solve its funding crisis. Page 8

Cuban releases welcomed
The EU has welcomed Cuba's release of prisoners, but urged Havana to free all those held for expressing political views. Page 5

Tobacco companies defiant
US tobacco companies have said they will not accept a national settlement that failed to provide them with limited immunity against future lawsuits. Page 5

Princess Margaret has stroke
Princess Margaret, 67-year-old younger sister of Queen Elizabeth, is undergoing tests after a mild stroke at her home on the Caribbean island of Mustique.

EU seeks China dialogue
The European Union has decided to switch from confrontation to dialogue with China in its efforts to get Beijing to improve human rights. Page 4

Blair may meet Sinn Fein
UK prime minister Tony Blair has not ruled out meeting Sinn Féin president Gerry Adams despite threats that it could lead to the Ulster Unionist party withdrawing from the Northern Ireland peace talks. Page 8

World Cup ticket move
Fifa, soccer's world governing body, is trying to end controversy over France's World Cup ticketing policy by making an extra 150,000 tickets available to non-French competitors. Page 2

BUSINESS NEWS

SGL Carbon plans shake-up so it can move its HQ abroad

SGL Carbon of Germany, the world's biggest maker of carbon and graphite products, plans to change its structure so it can relocate its headquarters abroad. The step will involve the creation of a management group with a separate legal status from the German parent. Page 15; Price-fixing fears, Page 20

Walt Disney found that a campaign by institutional shareholders to oust directors with close ties to chairman Michael Eisner had gained ground at the US entertainment group's annual meeting. Page 15

Kvaerner, the Anglo-Norwegian engineering and construction group announced $1.12bn of orders from Carnival Corporation of the US. Page 17

Telefónica of Spain's chairman Juan Villalonga is expected to seek board approval to negotiate an alliance with WorldCom-MCI of the US. Page 20

Lufthansa, the German airline group, and Karstadt, the German retailer, agreed to sell Euro Lloyd, one of the country's biggest travel agency chains, to Kuoni, the international travel and tour operator. Page 19

Crédit Commercial de France, the French bank, plans to launch a rights issue to help fund the purchase of CIC, the state-owned regional bank, if its bid proves successful. Page 19

Telmex, the Mexican telecommunications company, may complain to the World Trade Organisation that AT&T and MCI have blocked its access to the US market. Page 14

Computer Sciences, the US computer services group, has filed a lawsuit against Computer Associates in a bid to block its predator's $9.8bn hostile takeover bid. Page 16

Wal-Mart Stores, the world's biggest retailer, reported an 18 per cent surge in net earnings to $1.8bn for the fourth quarter to January 31. Page 18

Thailand pledged to speed restructuring of its privatisation and banking system. In return, Bangkok is expected to secure the release in March of funding worth $1.9bn under a $17.2bn International Monetary Fund rescue package. Page 14; First in, first out? Page 12; Observer, Page 18

Taiwan Semiconductor Manufacturing, Taiwan's biggest chipmaker, has struck a US$148m deal with National Semiconductor to produce 10m central processing units – the "brains" of personal computers – a year. Page 15

Toshiba, the Japanese semiconductor maker, is spending Y10bn ($78m) on setting up a new assembly plant in Japan to meet growing demand for advanced memory chips. Page 18

Cathay Life, Taiwan's biggest insurance concern, reported a jump in net profits of 77 per cent in 1997, chiefly because of stock market gains and the country's economic recovery. Page 18

Telekom Malaysia's net profit fell 2.7 per cent to M$1.83bn (US$486.7m) as competition intensified and the sharp drop in the value of the Malaysian currency took its toll. Page 18

Matsushita, Japan's largest consumer electronics group, reported a 2 per cent rise in group sales to Y2,082.9bn ($16.3bn) for the three months to the end of December. Page 18

US demands details of Iraq deal

Annan gets ecstatic welcome at UN HQ

By Laura Silber in New York, Bruce Clark in Washington and George Parker in London

Kofi Annan, United Nations secretary-general, yesterday received an ecstatic welcome at UN headquarters as the US called for more precise details of the agreement that has averted imminent military action against Iraq.

At the same time, Security Council members were set to draft a resolution to enshrine the weapons inspection agreement reached by Mr Annan at the weekend.

After briefing the 15-member Security Council, Mr Annan said: "I am pleased to tell you that I had a general sense of approval." He added: "Obviously there are details which have to be worked out and explanations have been given."

US president Bill Clinton said the deal would be "an important step forward" if it were implemented.

But he added: "We have to be watching very closely now to see not just what Iraq says, but what it does."

In a speech to the National Council of Jewish Women, he said: "We must remain committed to see that Saddam Hussein does not menace the world with weapons of mass destruction."

Madeleine Albright, the US secretary of state, said "it is very clear Saddam Hussein has reversed course" by agreeing to open up hitherto closed sites.

But she said there were "question marks and ambiguities" in the UN-Iraqi agreement on the procedures laid down for arms inspections.

Tony Blair, UK prime minister, yesterday said the agreement must be embodied in a Security Council resolution, which would make it clear that no further obstruction on the part of Mr Saddam would be tolerated.

Speaking in Parliament, he said: "We are not going to play more elaborate diplomatic games that allow Saddam Hussein to thwart the inspections regime which has now been agreed."

Mr Blair plans to visit the Palestinian territories and Egypt in April to show Arab states that the European Union, of which the UK is current president, treats justice for Palestinians as seriously as ridding Iraq of weapons of mass destruction. He will also visit Israel.

Mr Annan meanwhile pointed out that Mr Saddam had never before personally approved an agreement.

He also praised the Iraqi leadership for showing "courage, wisdom and flexibility".

After listening to Mr Annan's remarks, Bill Richardson, US ambassador to the UN, welcomed the secretary-general's efforts. But he cautioned that "we need clarification and verification", adding that "it needs to be tested soon". Mr Annan made clear none of these requests "caused difficulties" for his team.

Mr Richardson emphasised that the UN mission charged with dismantling Iraq's arsenal of deadly weapons (Unscom) must maintain control over the disarmament process.

"We think it is very important that Unscom be the key operational authority in this agreement," he said.

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Greenspan yesterday: 'Events ... not likely to unfold smoothly' Reuters

US economy faces year of uncertainty, Greenspan warns

By Gerard Baker in Washington

The outlook for the US economy this year is highly uncertain, with risks finely balanced between a renewal of inflationary pressures and a sharp slowdown that could damp overall economic activity and prices, Alan Greenspan, the chairman of the Federal Reserve, said yesterday.

In his half-yearly Humphrey-Hawkins testimony and forecast to the US Congress, Mr Greenspan said the likeliest scenario was that the "storm clouds" over Asia would slow growth in 1998 by just enough to damp inflation. But he cautioned that the final effects of the crisis were uncertain and suggested there could be significant turbulence.

"With the current situation reflecting a balance of strong countervailing forces, events in the months ahead are not likely to unfold smoothly," he said.

In an echo of previous warnings on the dangers of overheated financial markets in the US, Mr Greenspan said the risk of financial excesses was a source of concern to policymakers. He noted that recent strong growth in equity prices had been driven by improving expectations for profits. He declined to say whether those expectations were justified, but said: "Quite possibly, 12 to 18 months from now, some of the securities purchased on the market could be looked upon with some regret by investors."

US economic performance had been "exemplary" in 1997, Mr Greenspan said, with growth its highest in 10 years and the inflation environment "as close to price stability as we have known ... in three decades".

In general Mr Greenspan stuck with his earlier assessment that the Asian crisis would probably have a benign effect on the US

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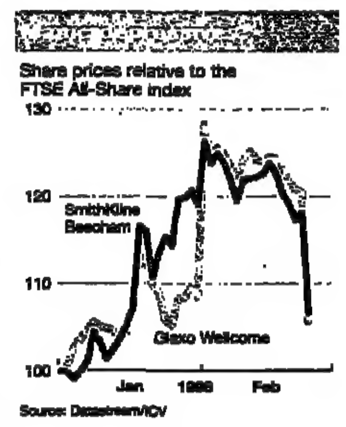
Dispute over power ended merger plan

Glaxo Wellcome and SmithKline shares fall sharply



Source: Datastream/ICV

By Daniel Green and Roger Taylor in London

Shares in the UK's two largest pharmaceuticals companies, Glaxo Wellcome and SmithKline Beecham, fell yesterday after the acrimonious collapse of their merger plan on Monday night.

Glaxo fell 247p or 18 per cent to £16.57 and SmithKline lost 83p or 10.3 per cent to 724p.

The talks failed over the balance of power within the merged organisation, above all at board level.

Sir Richard Sykes, Glaxo's chairman, wanted to increase his company's power in the new organisation to reflect the fact that it is almost twice the size of SmithKline in prescription medicine sales.

SmithKline also sells consumer products such as soft drinks Lucozade and Ribena, which are less profitable than drugs.

Sir Richard and Jan Leschly, SmithKline's chief executive, planned to run the company together, but could not agree on who would occupy the number three slot.

Sir Richard wanted Robert Ingram, his chief executive, while Mr Leschly wanted Jean-Pierre Garnier, his heir apparent and chief operating officer. SmithKline took Sir Richard's demands as evidence that the company wanted a takeover rather than a merger.

It accused Glaxo of reneging on agreements made before the talks were announced on January 30. Officially, Glaxo Wellcome said only that in spite of the compelling strategic logic behind the merger – which would have been the biggest deal in corporate history – the two companies had been unable to agree on terms.

Institutional investors were bemused at the turn of events. Many felt the reasons given, that the companies were unable to agree on terms, seemed inadequate to abandon a merger promising cost savings of more than £1bn ($1.67bn) a year.

Graham Wood, head of UK equities at Standard Life, pointed out that if the institutions were dissatisfied with the behaviour of either company it would be difficult to apply pressure. "You can vote against a company proposing a merger, but you cannot vote against a company that proposing to do nothing," he said.

The collapse is a particular disappointment for Mr Leschly. This is the second time in a month that merger talks he has been leading have failed.

He abandoned a proposed deal with American Home Products of the US after Sir Richard proposed the all-UK merger.

With a market capitalisation of more than £110bn, the new company would have been the largest in the world in market value terms after General Electric of the US, accounting for about 12 per cent of the value of Britain's FTSE 100 index.

It would also have given the joint business a near 8 per cent share of the core prescription drug market, putting it in a different league from its nearest rivals, Merck of the US and Switzerland's Novartis, which each have about 4.5 per cent.

Editorial Comment and Pop goes the bubble, Page 13
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Markets

STOCK MARKET INDICES		
New York: lunchtime		
Dow Jones Ind Av	8,406.47	(-3.73)
NASDAQ Composite	1,755.01	(+3.25)
Europe and Far East		
CAC40	3,262.63	(-10.85)
DAX	4,399.54	(-58.00)
FTSE 100	5,651.0	(-51.6)
Nikkei	16,198.00	(-411.49)
US LUNCHTIME RATES		
Federal Funds	5.5%	
3-mth Treas Bills: Yld	5.291%	
Long Bond	102½	
Yield	5.959%	
OTHER RATES		
UK: 3-mo Interbank	7⅝%	(7¾%)
UK: 10 yr Gilt	108.7734	(109.185)
France: 10 yr OAT	103.88	(104.07)
Germany: 10 yr Bund	107.58	(107.63)
Japan: 10 yr JGB	109.44	(109.48)
NORTH SEA OIL (Argus)		
Brent Dated	$13.15	(13.465)

GOLD		
New York: Comex		
(Feb)	$291.7	(294.1)
London	$291.95	(293.45)
EXCHANGE RATES		
Dollar		
New York: lunchtime		
£	1.651	
DM	1.79875	
FFr	6.0305	
SFr	1.4535	
Y	127.985	
London:		
£	1.6472	(1.6434)
DM	1.8019	(1.7988)
FFr	6.0403	(6.0330)
SFr	1.455	(1.4515)
Y	127.885	(127.94)
Tokyo close		Y 128.26
Sterling		
DM	2.9681	(2.958)

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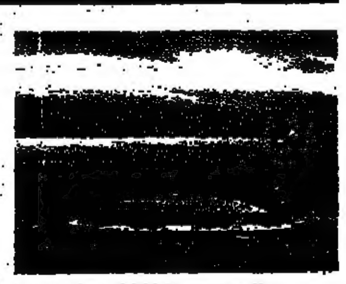

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EMERGING MARKETS

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Banks pledge no extra charges for euros

By George Graham, Banking Editor

European banks have promised not to charge their customers extra for converting domestic currencies into the euro after the EU's single currency is introduced next year.

Nikolaus Bömcke, secretary general of the European banking federation, said banks would only use the official rates for conversions between euros and national currencies. Conversions would be free except in rare cases where a "substantial service" is required.

"We will certainly not take advantage of this changeover to the euro to rip off our customers. This is a non-problem," he said.

The pledges are contained in a letter to Emma Bonino, the European commissioner for consumer affairs, and come just before a forum organised by the Commission tomorrow to discuss monetary union.

Banks have been anxious to avert the threat of a special regulation governing conversion and payment practices. Yves-Thibault de Silguy, monetary affairs commissioner, appears to have agreed not to introduce legislation, but is adamant banks must not charge customers for a foreign exchange risk which will have disappeared.

Mr de Silguy wants banks to abide by the principle that when conversion is obligatory, they should not charge, even if they charged for optional conversions.

In most EU countries, banks have already declared that conversion of account balances from national currencies into euros, as well as the conversion of incoming and outgoing payments, will be free. But some banks have said they will charge if a customer wants to convert back from euros to a national currency.

Banks argue, however, that exchanging notes and coin involves handling, storage and security costs far beyond the foreign exchange risk, so they should be free to charge extra in these cases.

This problem will become particularly acute in the weeks leading up to and following January 1, 2002, as national currencies are physically replaced by the new euro notes and coins.

"This is an enormous burden which banks have to shoulder on behalf of the public authorities and we need their help to reduce the cost of this burden," Mr Bömcke said.

The volume of notes and coins which must be replaced has raised concerns that there may simply not be enough security centres and armoured vans in the EU to cope.

The banking federation has suggested that military personnel could be drafted in to provide additional security during the changeover.

Banks are also pressing to be allowed to stamp the old national banknotes their customers hand in as invalid. That would cut the security costs of transporting and storing the old notes. Traditionally, old notes can be destroyed only by central banks.

Senate set to agree on Nato

By Bruce Clark in Washington

Senior US legislators of both parties yesterday indicated firm support for the enlargement of Nato but urged west European allies to be more generous to their ex-communist neighbours.

Senator Jesse Helms, the chairman of the Senate Foreign Relations committee, said Nato's expansion could be followed rapidly by its collapse unless European allies met their commitments.

A Senate resolution endorsing the expansion process would make the point that "the majority of the cost of making and keeping Nato militarily effective will be the responsibility of our allies," he said.

Senator Helms was speaking at the final hearing of his influential committee before the Senate votes early next month on the incorporation of Poland, Hungary and the Czech Republic by the Atlantic alliance in spring 1999.

Yesterday's hearing suggested that there would be no difficulty in mustering the necessary support from two-thirds of the 100-strong Senate.

Senator Joseph Biden, the committee's leading Democrat, said the European Union had "not been very generous or speedy" in its efforts to embrace former communist countries.

"They should speed this process up," he said, while adding that EU enlargement could not be a substitute for Nato's growth because the latter institution guaranteed US influence in Europe.

Madeleine Albright, the secretary of state, urged the committee to embrace the three newcomers and also to leave the door open to other central and eastern European countries. She deplored suggestions by some senators that a "pause" should be declared. From Estonia to Bulgaria, such a suggestion would be interpreted as "an open door shutting" and remove the incentive that now existed for would-be Nato members to prove their credentials.

William Cohen, the defence secretary, said the Pentagon had slashed its estimate of the total cost of Nato enlargement – leaving the US with a bill of only $40m per year – because the military infrastructure in former Warsaw Pact countries turned out to be better than originally thought.

Mr Cohen said the earlier Pentagon estimates assumed four new Nato entrants, not three. Also, the incoming members had already completed some of the military tasks which were initially expected to come under the alliance budget.

Schröder aims to be Bonn's Blair

Peter Norman profiles a politician who is fighting for the middle ground

He is 53 not 44. He recently married for the fourth time. And as prime minister of his state since 1990, he is hardly a fresh face on the political stage.

But despite all the differences, Gerhard Schröder, the Social Democrat premier of Lower Saxony, aspires to be the German equivalent of Tony Blair, the UK prime minister. The next few days will determine whether he can fight for his own brand of centre-left politics at a national level.

Mr Schröder's campaign for next Sunday's state election is very different to that planned for the federal election on September 27 by Chancellor Helmut Kohl and expected from Oskar Lafontaine, the Social Democrat (SPD) national leader and Mr Schröder's rival to be opposition challenger to Mr Kohl.

Mr Kohl and Mr Lafontaine both seek political success by dividing Germany into hostile camps. The chancellor brands the SPD and the environmentalist Greens as opponents of free enterprise who will only be able to govern with tacit backing of the Party of Democratic Socialism, the former east German communists. Mr Lafontaine caricatures the Bonn coalition of Mr Kohl's Christian Democratic Union, the Bavarian Christian Social Union and the small Free Democrat Party as a coterie of "neo-liberals" who favour millionaires while impoverishing the average family.

Mr Schröder, by contrast, says his party must aim for a "new middle". Echoing Mr Blair's appeal for greater individual responsibility, he wants "an alliance between those who want to achieve and those who are capable of achievement". He sees a political convergence between New Labour in Britain, which "has taken over a deregulated economy and is strengthening the social system" and his own version of SPD politics "coming from the other end by making an already comprehensive welfare state less bureaucratic".

In practical terms, Mr Schröder's strategy means expanding the SPD's traditional blue collar support to include Germany's traditionally conservative craftsmen and other business interests. But shifting SPD politics to the centre is not easy for a politician who lacks a strong power base among party activists.

This has become clear during his campaign. At a recent meeting with SPD trade unionists in Osnabrück, Mr Schröder got resounding applause when he attacked Mr Kohl's economic record and pledged to fight for jobs. But the enthusiasm subsided when he called for a political partnership with small entrepreneurs.

In Osnabrück, the crowded hall backed Mr Schröder to the hilt when he defended the state's recent controversial purchase of the steel maker Preussag Stahl to prevent it being taken over by Voest Alpine of Austria. But this move has badly tarnished Mr Schröder's image among Hanover's business community as the SPD politician bosses would be most willing to support.

Christian Wulff, the CDU challenger in Lower Saxony, says Mr Schröder is in a dilemma: "Schröder's popularity among the general public is based on his opposition to his own party and his assessment that it lacks economic competence. He loses that popularity when he tries to win over the SPD."

And indeed, the latest opinion polls suggest that Mr Schröder's delicate balancing act between a public show of loyalty to Mr Lafontaine and boosting his own profile may have slightly weakened his support.

Schröder (left) and Lafontaine: rivals to challenge Kohl Reuters

Although Infratest-Dimap, a polling organisation, reported last week that 53 per cent of voters wanted Mr Schröder to be state prime minister against 35 per cent for Mr Wulff, Mr Schröder's lead had shrunk to 18 percentage points from 29 points at the start of the year.

Other findings in the Infratest-Dimap survey of 1,000 voters indicated considerable uncertainty among electors. The same poll found just over half of voters were dissatisfied with the performance of Mr Schröder's SPD government, which has been unable to prevent rising unemployment and state indebtedness over the past four years. Yet in general they believed the SPD was more capable of tackling key local problems than other parties.

It is in such an unpredictable environment that Mr Schröder's political talents are at a premium. He is a skilled orator, in contrast to most German politicians. He can turn on the charm like a tap. He is adept at turning potentially adverse situations to his advantage, notably when speaking with disarming candour about his messy divorce last year. He can benefit from a strong sense of pride in Lower Saxony that a "local boy" could be Germany's next leader.

Mr Schröder can be sure of winning the biggest share of the vote on Sunday. But it is far from certain whether he can capitalise on his expected victory sufficiently to become the challenger to Mr Kohl in September.

Even less clear is whether Mr Schröder can ever match Mr Blair's record and reform his own party. The SPD has its roots to the left of centre with a strong core of resistance to a middle-of-the-road line.

Tomorrow Ralph Atkins interviews Edmund Stoiber, widely seen as the most Eurosceptical of Germany's political leaders.

France urged to aid investment

By Andrew Jack in Paris

France must introduce pension funds and reform its tax system to encourage greater investment in equities or risk losing its leading position in world financial markets, an influential lobbying group said yesterday.

Paris Europlace, an organisation of the country's leading financial service sector companies, called for the tax on investment in shares to be reduced to the lower level that applies to bonds.

It demanded the rapid creation of a system of complementary pension funds, and incentives to encourage existing life insurance funds and collective investment companies to invest more in shares rather than bonds.

It also called for a special tax regime for top bankers and investment analysts to prevent a "brain drain" to countries with less punishing fiscal systems.

"If the French ... want to get their share of the advantages of an enlarged Europe which its monetarily united and facing global competition, they have to accept that their companies do not have to cope with too many handicaps," it says.

The recommendations were contained in a report by Philippe Camus, managing director of Lagardère, the French industrial group, and based on opinions provided by 120 financial institutions. It is likely to refuel the debate over reforms to France's financial sector. Europlace was created under the chairmanship of Ernest-Antoine Seillière, the new head of the employers' federation, and is now led by Marc Viénot, the out-going chairman of the bank Société Générale.

The organisation argues that French companies need to improve their financial communication and accounting policies, and take steps towards better corporate governance. It criticises the weaknesses of financial analysts based in Paris as well as the French financial press.

It urges a greater educational and marketing effort to persuade the French public of the advantages of investing in equities as a way of funding business development. It also calls for new measures to help the development of venture capital, and simplified regulations to allow more companies to seek stock market quotations.

Italian inflation looks set to rise

By James Blitz in Rome

Italy's consumer price inflation rate looks set to show an unexpected jump to an annualised 1.8 per cent in February after preliminary results from a range of towns and cities.

In a development that raises questions about when the Bank of Italy will be able to bring the country's short-term rates down to the European Union average, it emerged yesterday that the annualised rate would jump up from 1.6 per cent in January.

The increase in inflation, which involved a month-on-month rise of more than 0.3 per cent, appeared to be due in large part to increases in the car and food sectors.

According to figures provided by ISTAT, the government statistical service, the cost of locally made cars rose 3 per cent and that of foreign cars 2.4 per cent.

Economic analysts said yesterday the increase in the car sector had been triggered by the ending of a government scheme under which consumers have been encouraged to trade in used cars in return for a new one.

There were signs that the increase in inflation in some cities had also been due to one-off phenomena. A 1.5 per cent month-on-month increase in inflation in Bologna was largely because of the high cost of tickets for a key football match between the city's football team and Juventus.

Nevertheless, the consumer price increases – which will be confirmed by final figures to be published on March 6 – looks set to bring the February figure close to the Bank of Italy average inflation target of 2 per cent for 1998.

Romano Prodi, the Italian prime minister, said yesterday that he was "absolutely unpreoccupied" by the data and that if he had been given the 1.8 per cent figure a few years ago he would have "jumped for joy."

But some economic analysts argued that, with inflation edging up and the economy now in full recovery, it would be difficult for Antonio Fazio, the Bank of Italy governor, to bring short-term rates down to French and German levels in the near future.

Italian overnight interest rates are currently at around 6.25 per cent compared to around 3.4 per cent in Germany.

Party switch in Danish poll

By Hilary Barnes in Copenhagen

The likelihood of a change of government in Denmark increased yesterday when one of the country's centre parties indicated it would support a centre-right administration in the general election on March 11.

Although the contest is so close that the decision by the Centre Democrats may not be enough to tip the balance, their support would be essential for the Liberal and Conservative parties to have any chance of power.

The Centre Democrats' support is conditional. The party wants guarantees against cuts in certain welfare programmes and it will not support a government which places new restrictions on refugees and immigrants, one of the most sensitive issues in the election.

The Centre Democrats, who had five members in the 179-seat parliament, generally supported the incumbent government, a minority coalition of the Social Democratic party and the social liberal Radical party. The Liberal and Conservative parties have been out of office since January 1993.

A Gallup poll yesterday showed the Social Democrats and their leftwing allies with 48.9 per cent while the Liberal-Conservative alliance and its allies were supported by 48.6 per cent, with the rest of the votes going to parties unlikely to win seats.

If the final result is as finely balanced as the poll suggests, the issue of who forms the next government may be decided by the two members each who are elected for Greenland and the Faeroe Islands.

The most likely leader of a non-socialist government is Uffe Ellemann-Jensen, head of the Liberal party, which is registering about 25 per cent in the opinion polls. This is slightly more than in 1994, when it won 23.3 per cent.

Move to calm World Cup row

By Jimmy Burns in London and Emma Tucker in Brussels

Fifa, soccer's world governing body, yesterday moved to block a row over France's World Cup ticketing policy by announcing it would make available an extra 150,000 tickets to non-French competing nations.

Although Fifa has yet to work out just how the tickets will be distributed, the bulk are expected to go to competing European nations, who have complained that the French organisers were rigging sales in favour of the host nation.

Fifa described the 150,000 tickets as a "contingency" measure. The figure was agreed at a meeting between the organisation's general secretary Joseph Blatter and representatives of the Comité Française d'Organisation, which is running France '98.

The French organisers said at the weekend that at the beginning of February, 1.75m of the total 2.54m tickets had been sold. The remainder included 500,000 allocated to other federations and a final batch of 150,000 which were expected to be released in April. There was some uncertainty how many of the last batch of tickets were originally due to be distributed outside France.

By insisting that the last 150,000 tickets are shared out between federations other than France, Mr Blatter seems to have gone some way to appeasing those who have protested over a shortage of tickets.

The Commission said it had not yet received details of the Fifa offer. An EU official said that if the tickets were to be distributed through the French world cup organisers this would do nothing to satisfy its concerns that sales were being rigged in favour of French supporters.

However, if the 150,000 tickets were to be shared out through national football associations "that would be great news", said the official.

Karel Van Miert, EU Commissioner for competition, recently gave the French organisers two weeks to ensure non-French fans had fairer access to the World Cup. He said he was acting on "complaints from individuals, national federations, and the general outcry" over the shortage of tickets outside France.

Meanwhile Fifa officials are barely hiding their anger at the way Mr Van Miert has intervened – not for the first time – in football affairs.

"It is absurd to suggest that a whole ticketing system can be revised at such a late stage," said a Fifa official.

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NEWS DIGEST

Serb surrenders to UN tribunal

A Bosnian Serb accused of war crimes yesterday handed himself over for trial by the United Nations tribunal in The Hague, the third Serb to surrender voluntarily this month. Simo Zaric, said to have been a former police chief who took part in the "ethnic cleansing" of Moslems and Croats in the north Bosnian town of Bosanski Samac, protested his innocence shortly before giving himself up to Nato peacekeepers.

Mr Zaric, who has a Moslem wife, said he would return as a hero, not just to the Serbs but his former Croat and Moslem neighbours.

Diplomats in Belgrade said the Yugoslav authorities, adopting a more pragmatic policy towards the international community, had put pressure on the three Serbs – all from Bosanski Samac – to surrender voluntarily.

Robert Gelbard, US envoy to the Balkans, announced after talks with Slobodan Milosevic, the Yugoslav president, on Monday that the US was ready to make minor concessions to Belgrade in recognition of its support for the new pro-western Bosnian Serb leadership. But US sanctions barring Yugoslavia from international financial institutions remain in place.

Fifty-one suspects publicly indicted by the UN tribunal remain at large. *Guy Dinmore, Belgrade*

■ GERMAN SERVICE WORKERS

World's biggest union planned

Six of Germany's biggest unions yesterday started drawing up formal plans to create a "super union" which – with 3.7m members, mostly in the service sector – would be the biggest in the world.

The unions' leaders are expected to debate the plan in May after preliminary talks this week, with the hope of having an outline structure ready by the end of this year. The new union would then be formed in 2000. If approved, it would be bigger than the powerful IG Metall union, which has 2.66m members.

Roland Issen, head of the DAG white-collar workers' union, said the plan represented a chance to "remove competition and combine influence". The other five unions involved include the public sector and transport union (OTV), the post union and the HBV trading, banking and insurance union.

However, the GdED railworkers union, which took part in yesterday's talks, announced it would not be part of the plan. *Ralph Atkins, Bonn*

■ CARTEL OFFICE

Kirch investigation extended

Germany's competition watchdog, said yesterday it would extend an investigation into plans of Leo Kirch, the Bavarian media magnate, to boost his Sat1 channel. The federal cartel office said an investigation into whether Mr Kirch should be allow to raise his stake in the channel by 15 percentage points to 58 per cent would be extended to July 31. It had been due to end in early March.

"The deadline has been extended to July 31," the spokesman said. "The investigation is now being conducted in connection with the probe in Brussels."

The 15 per cent stake is held by the Holtzbrinck publishing group, which publishes the business daily Handelsblatt and weekly Wirtschaftswoche.

Dieter Wolf, the cartel office president, said he might decide to block Mr Kirch's move on Sat1. A cartel office spokesman said the office wanted to see first what the European Commission decided on a separate probe into Mr Kirch's planned digital television alliance with media conglomerate Bertelsmann. *Reuters, Berlin*

■ OUTDOOR MACHINERY

EU noise rules extended

Mobile cranes and dumpers are among outdoor equipment to be subject to noise limits for the first time under European Commission proposals published yesterday. The European Union's executive also wants to force manufacturers to mark outdoor machines with guaranteed maximum noise levels to enable consumers to make more informed choices.

The Commission said yesterday its aim was to protect health. Its proposals for a directive on noise emissions cover 55 types of equipment including construction machines, garden machinery and municipal vehicles. The restrictions would apply to new machines rather than existing ones and are aimed at manufacturers rather than users.

In some cases the limit would initially be set well above anything likely to be emitted. Small lawnmowers for example would be restricted to 96 decibels. However, the Commission made clear yesterday that the limits would be tightened in subsequent revisions.

Under the proposals existing limits would be tightened by between three and six decibels for compressors, tower cranes and hand-held concrete breakers. For other equipment yesterday's proposal confirm existing limits.

The Commission's proposals would have to be approved by European Union members to carry legislative force. *Michael Smith, Brussels*

■ GREEK PRIVATISATION

Third attempt to sell bank

Greece's Socialist government yesterday launched a third attempt to privatise Creta Bank, a small bank which was taken under state control after a $200m embezzlement scandal was revealed in 1988. Bids for a 97 per cent equity stake are due in June, and payment can be made in instalments, according to the economy ministry.

The bank's name was changed from Bank of Crete when it was offered for sale last year. The only bidder, Bank of Piraeus, an aggressive Greek private bank, refused to accept the Dr30bn ($104m) minimum price set by the government. The revised tender terms do not include a minimum price, while the buyer would have to make a down-payment of only 30 per cent.

Analysts said the more favourable sale terms reflected the government's anxiety to sell the bank, which has a large branch network but is thought to have a sizeable burden of non-performing debt. The Socialists are trying to accelerate disposals of small state-controlled banks, but strong union resistance to privatisation has discouraged potential buyers. *Kerin Hope, Athens*

■ POLISH VENTURE

Tractor group drops plans

Agco, the international farm machinery manufacturer and distributor, has dropped plans to invest in Poland's state-owned Ursus tractor factory, Emil Wasacz, the treasury minister has said. Agco has spent well over a year exploring the possibility of joint investment in Ursus with the state-owned Industrial Development Agency, which holds a 20 per cent stake in the ailing tractor maker.

The joint venture was to have gone ahead after the completion last year of a 90 per cent reduction in Ursus's 700m zloty ($198m) debt. However, the new government-appointed factory management has made no secret of wanting to work closely with the Solidarity union at the plant. The union is opposed to foreign investment. "Agco were here last week and said among other reasons for dropping the project that the influence of the unions at Ursus was too great," a development agency spokesman said. *Christopher Bobinski, Warsaw*

Crimea poses threat to Russian-Ukrainian accord

Charles Clover on renewed tensions about sovereignty in the strategically valued peninsula

As Russia and Ukraine prepare to patch up their rocky post-independence relationship with an agreement which would more than double their trade, one issue still threatens to bring it all down – the fate of Crimea.

With its ethnic Russian majority, a key Russian naval base and 11 airports, Crimea "is a detonator which could explode Russian-Ukrainian relations at any time," said Leonid Grach, leader of the Crimean Communist party, and the former political boss of of the entire peninsular in Soviet times.

The latest source of tension was a decree last month by Leonid Kuchma, Ukraine's president. This removed the mayor of the historic resort of Yalta and placed the city under federal rule, apparently violating Crimea's autonomous status. The decree immediately rekindled calls for a referendum to rejoin Russia followed by violent demonstrations and a crackdown by the Ukrainian authorities.

The rocky peninsular used to be the traditional summer playground for the Czars and then the Soviet elite. In Soviet times it was marred by dozens of ugly high-rise hotels and sanatoria built by Soviet-era trade unions and other institutions.

President Leonid Kuchma of Ukraine (left); President Boris Yeltsin of Russia

Formerly inhabitated mainly by Crimean Tartars it was incorporated into the Russian empire by Catherine the Great. During the second world war Stalin forcibly exiled the Tartars to Kazakhstan. Many have since drifted back to try to reclaim their old homes and property.

Some Crimean politicians maintain that what is really now at stake is the future ownership of Yalta's hotels and other property about to be privatised. This is a highly emotive issue given the peninsular's status as the top retirement spot for former senior party, KGB and military officials.

The root of the current tensions goes back to 1954 when, on the 300th anniversary of Ukraine's own incorporation into the Russian empire, the Soviet Communist party proclaimed an "everlasting union" between the two Soviet republics and ceded the peninsula to Ukraine, "as a token of the friendship of the Russian people".

This was a meaningless gesture while power was in the hands of the communist party and the Soviet republics were mere administrative ciphers. But when the everlasting union ended in 1991 with the collapse of the Soviet Union, Crimea stayed with its new owners, and Russia felt the real impact of the loss of this strategic and beautiful place.

Crimea's local politics reflects these tensions and in 1992 the peninsula demanded and received from Kiev autonomous status and the right to form its own government. This did not totally satisfy partisans of a return to Russia and in 1994 they threatened to hold a referendum on the issue.

Top-level talks between the Russian and Ukrainian leaders defused the issue. But after the latest Yalta decree the Russian state Duma decided to delay ratification of a Ukrainian-Russian friendship treaty signed last May.

Last weekend, Yuri Luzhkov, Moscow's mayor and a contender for Russia's presidency in 2000, raised the temperature further by calling for a return to Russia of the naval base of Sevastopol. This is the home port of the former Soviet Black Sea fleet which was divided up between Russia and Ukraine under previous agreements.

On Monday tension rose further with the death of Alexander Safontsev, Crimea's deputy prime minister. He was critically injured by a bomb attack on February 5 which coincided with the demonstrations in Yalta against the new decree.

The bombing served as the catalyst for a crackdown by Kiev on "criminal activity" in Crimea, and for the past two weeks, Ukrainian television news has been dominated by footage of handcuffed Crimean toughs up against police cars, interior ministry commandos storming Crimean mafia hideouts and rows of heavy weapons recovered from the dachas of influential Crimean politicians who are now behind bars.

The target of the crackdown is the Party of Economic Rebirth, which controls roughly 40 of 98 seats in the Crimean parliament. The PER used to be an ally of Kiev and was instrumental in foiling the 1994 attempt by Russian nationalists in Crimea to secede. Three local PER deputies have been arrested to date, along with 40 other party members.

Crimean politicians argue that the PER's "crime" was to have been in control of Yalta with its more than 170 hotels and sanatoria worth billions of dollars. "This is really all about control over the hotels and sanatoria," said Alexander Kalyus, the former acting mayor of Yalta who was removed by Mr Kuchma's decree.

The decree charged the Yalta government with failing to pay teachers salaries for four months. But Mr Kalyus said this was because of Kiev levying high taxes and allowing the municipal government to keep only 12 per cent of its revenues last year.

Anatoly Gritsenko, the speaker of the Crimean parliament agreed "there was no basis for the Yalta decree" and added that such wage arrears were common throughout Ukraine.

Mr Kalyus argues that business interests close to the central government are behind the Yalta decree. "The aim is to install the ruling Popular Democratic party (NDP) in Yalta," he said. The NDP is the party of Valery Pustovoitenko, Ukraine's prime minister and is backed by President Kuchma whose son-in-law, Igor Franchuk, is the leading NDP politician in Yalta. Mr Franchuk could not be reached for comment.

Deal set to co-ordinate aerospace production

Russia and Ukraine will agree to set up a special governmental commission to aid co-operation between factories from the two countries, according to a wide-ranging economic agreement to be signed at the end of the week in Moscow, Charles Clover reports from Kiev.

A Ukrainian official said the agreement was aimed primarily at smoothing the way for three aerospace projects: the AN-70 cargo aircraft, a rocket booster called Sea Start, and the TU 134 aircraft.

Since the break-up of the Soviet Union, Russian and Ukrainian factories, which often produced different parts of the same finished good, have had trouble co-ordinating large manufacturing projects. Last year, for example, disagreements between Russian and Ukrainian factories threatened a $600m project to produce tanks for Pakistan, and a military parts trade war was only narrowly averted. Bickering also threatens the AN-70.

Meanwhile, a group of Russian businessmen flew to Kiev yesterday to meet Leonid Kuchma, Ukraine's president, and discuss investments in Ukrainian enterprises such as the Linos oil refinery, the largest oil refinery in Ukraine, and the Nikolaevsky metals complex, the largest alumina refinery in the former Soviet Union.

Ukrainian prime minister Valery Pustovoitenko invited the Russians to take part in the privatisation of large-scale Ukrainian enterprises, which is scheduled to begin in earnest this year.

Dutch balk over bargains at the price of privacy

By Gordon Cramb in Amsterdam

Two traits to which the Dutch freely admit are a fondness for a discount at the shops and a determination to preserve privacy behind their front door. So when the country's biggest supermarket chain this month sought to trade one for the other, it got more than it bargained for.

The promotion started spectacularly. From a population of some 15.5m, more than 2m signed up within 10 days for a bonus card launched by Albert Heijn as a way to secure its 28 per cent share of the Netherlands' grocery market.

It provides reductions on up to 400 items if shoppers at the checkout produce the card, which is free. To get it, customers are being asked for name, address and family details. This will enable the company to tailor mailshots based on spending patterns logged at the till.

But at the weekend Albert Heijn – flagship of Ahold, the Amsterdam quoted international stores group – had to take full page advertisements in national newspapers to clarify that shoppers did not have to surrender their anonymity to get a card. All they would miss out on was the occasional targeted offer of minority products such as dog food or decaffeinated coffee.

This followed a finding by the government's data protection agency that the company should have made that option clear from the start, and ought to have specified more clearly what it planned to do with the information.

Indignant customers included the mother of an 11-year-old girl who came home with a card. Letter writers to the papers urged subverting the system by regularly swapping cards among friends, relatives and workplace colleagues.

The company pledged that customer details would not be sold to third parties. But marketing experts expect that Albert Heijn will refine its own database by buying further details of those for whom it now has addresses. "The average Dutchman is registered in 900 different places, and that information is sold," says Koen van Tankeren of the country's consumer association.

The bonus card itself breaks little new ground. It is similar to loyalty programmes already offered with less fanfare by smaller Dutch rivals, and by UK chains such as Tesco. The system was adapted from one in use at BiLo, one of Ahold's US subsidiaries.

But the reaction it has evoked reflects the sheer size of Ahold within its home market, as well as sensitivities about registering personal particulars. These date from the second world war German occupation when households had to vouch for those living under their roof. Long after liberation, a 1971 census was widely boycotted, and no such headcount has been attempted since.

Albert Heijn will be able to keep track of its customers even if they move house, by entrusting the upkeep of its database to KPN, the privatised posts and telecoms utility. At the same time, it will need to put less into advertising, because it can pinpoint those it thinks would spend more if encouraged.

Erik Muller, head of public relations, admits the company purposely avoided making clear that obtaining a bonus card did not require completing the form handed out at the entrance to its stores. "If we say you do not have to give your name, nobody does."

But until clarification came at the weekend, only 3 per cent were refusing. "The Dutch are very keen on prices," said Mr Muller.

Bulgarian shipyards offered for sale

By Theodor Troev in Sofia and Kerin Hope in Athens

Bulgaria's slow-moving privatisation programme has taken a step forward with controlling stakes in the country's three big shipyards being offered for sale.

Bids for the Rousse yard on the Danube river, which builds tugs and small ocean-going vessels, are due to be submitted early in April. The government is selling an 80 per cent stake in the yard, with the remaining shares reserved for employees.

Bids for the Bourgas and Varna yards, both on Bulgaria's Black Sea coast, will be invited in the next few weeks and the government plans to complete all three disposals by midsummer. DFC, the Madrid-based consultants, are advisers to the government.

The pro-market government elected last April pledged to speed privatisation under the terms of a $510m stand-by loan agreed with the the International Monetary Fund. However, the *fast-track* privatisation scheme for banks and key industries has met with delays.

Bulgaria's shipbuilding industry struggled to survive after the collapse of communism wiped out its captive markets in the former Soviet Union.

Laws favouring Malay businesses relaxed

By Sheila McNulty in Kuala Lumpur

Malaysia is to relax rigid racial laws favouring Malay businesses to mitigate the impact of the regional financial crisis.

The controversial *bumiputra* policy has for decades been the cornerstone of Malaysia's economic policy.

Daim Zainuddin, a confidant of Mahathir Mohammad, the prime minister, said the government would open ownership in Malay-dominated companies to other ethnic minorities in Malaysia, such as Chinese and Indians. This would include strategic industries such as the national carrier Malaysia Airlines.

"If there are groups prepared to buy [into Malay companies], the government is not going to stop them," Mr Daim said.

Mr Daim is probably the most influential of the economic advisers surrounding the prime minister. He is a former finance minister and is currently executive director of the National Economic Action Council, a special panel formed by the prime minister to tackle problems arising from the regional crisis.

The system of *bumiputras* (sons of the soil), which gives indigenous Malays special privileges, was introduced after bloody race riots in 1969. The affirmative action was designed to give the majority Malay race economic parity with the country's wealthier Chinese minority. The policy states, for example, that Malays must own at least 30 per cent of a company's equity.

Mr Daim revealed the policy shift at an informal meeting with media. The unceremonious manner of its delivery did not surprise observers who say the authorities fear a political backlash from the Malays when they are struggling in an economic downturn.

In recent months, Malaysian share prices have plunged and the ringgit has been sharply depreciated as a result of the regional financial crisis.

The government has resisted turning to the International Monetary Fund, as neighbouring countries have done.

Instead the government has announced austerity measures freezing several big-ticket infrastructure projects such as the $5bn Bakun Dam.

During Malaysia's last economic downturn, in the 1980s, the authorities eased restrictions on Malay ownership in manufacturing. The relaxation led to an inflow of foreign investors that allowed the sector to create broader economic growth over the next decade.

Dr Mahathir had hinted for some time that further liberalisation measures would follow.

Kim stands tall before bowed Korea

John Burton detects signs of hope invested in one man, who will be sworn in as president today

The first reaction was denial. Anger followed. And then pragmatism. Today, when Kim Dae-jung is sworn in as their president, South Koreans might just allow hope to outweigh their gloom about the economic circumstances that have befallen them since last autumn.

Such a change of mood is almost wholly down to the man himself. His record as courageous dissident during the days of military rule and his consistent criticism of Korea's industrial conglomerates have endowed him with colossal moral authority among the country's egalitarian-minded people.

"He is a wonderful man and deserves a chance to be president. It's the right time for him to be our leader," said Koh Han-sook, a grandmother who at 76 is only two years older than Mr Kim.

The renewed sense of hope is only the latest in a roller-coaster of emotions that Koreans have felt since the financial crisis broke last autumn. Koreans at first refused to believe that their economy was in trouble. Then they angrily accused the International Monetary Fund of demanding changes that would weaken the nation and cause social unrest.

But since Mr Kim's election, the the nation has quickly mobilised on a semi-war footing in response to patriotic appeals to overcome the economic crisis that followed the collapse of the country's currency, the won. More than $1bn in gold and diamonds have been collected to help pay the nation's foreign debt.

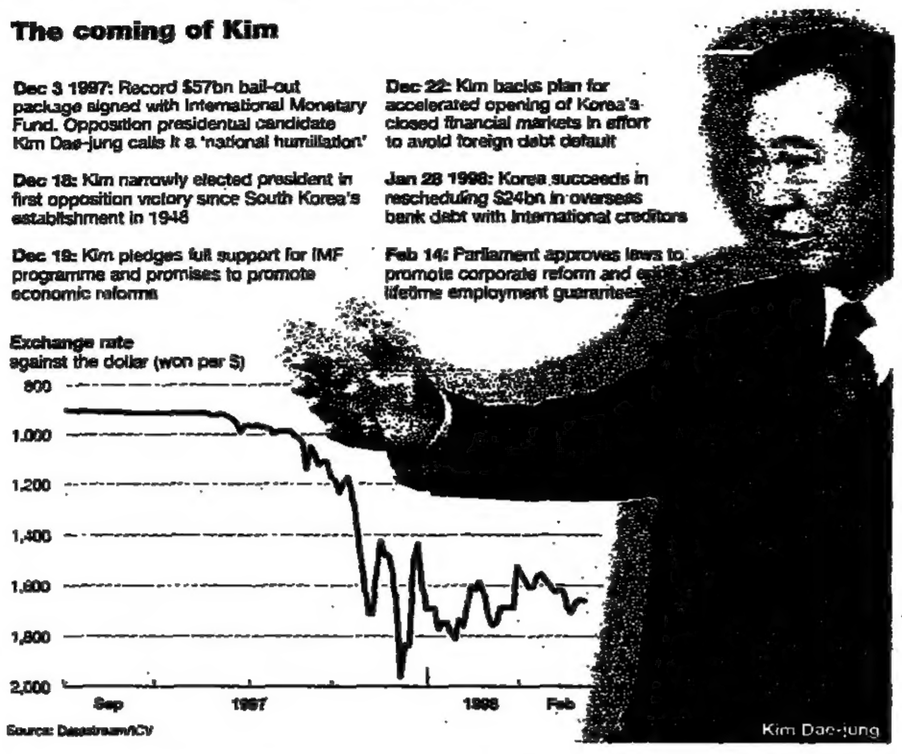
A campaign has been launched for blood donations to reduce imports of expensive plasma, while sales of foreign consumer goods have dried up in an effort to cut the trade deficit.

Opinion polls show that more than 80 per cent of Koreans rate Mr Kim with approval compared with the single-digit ratings for his discredited predecessor, Kim Young-sam, who plans to go into quiet retirement and avoid public events after being blamed for Korea's worst economic crisis in two decades.

Moreover, the new president has confounded sceptics by embracing economic reforms after at first opposing the tough conditions attached to the IMF rescue package.

Even before taking the oath of office, Mr Kim has emerged as *de facto* president by taking charge of efforts to open financial markets, relax rigid labour laws on job security, and introduce market reforms that expose the protected conglomerates, know as *chaebol*, to greater foreign competition.

The coming of Kim



Kim Dae-jung

However, in spite of a relentless media campaign extolling the virtues of sacrifice for the nation, some people complain about peer pressure to make donations. One executive said he returned from an overseas trip to find that his wife had donated the family's gold possessions. "I was angry but my wife said I needed to set a good example for my company."

Moreover, some believe that they have been unfairly singled out because their businesses have overseas affiliations. A manager for a local outlet of Bennigan's, a US restaurant chain, said that sales were down by 40 per cent because customers did not want to be seen eating in a "foreign" restaurant, although it is owned by Koreans.

Morale has been boosted by a recent agreement among Korea's foreign creditors to reschedule $24bn in bank loans, which some officials claimed meant that Korea had turned the corner in its the economic crisis.

You Jong Keun, a senior economic adviser to Mr Kim, warns that Koreans have grown complacent in the belief about a recovery. "There is less of a sense of urgency than there was two months ago. Korean people are not feeling the pain of reform. The real pain has yet to begin."

Unemployment remains low at 3 per cent and mass redundancies are so far limited to companies that have gone bankrupt, although the numbers are climbing. Nonetheless, there is a sense of foreboding as the government predicts that the number of jobless could soon double to 1.1m.

Kim Sang-chul worries about his job at a company that supplies equipment to Korea's big semiconductor companies, which are heavily indebted and are cutting back on investments. "Business is bad because the chipmakers have postponed planned plant projects in the UK, which my company was depending on for sales this year."

Economists are warning of a "March crisis" when domestic banks might call in short-term corporate loans that could send many companies to the wall.

Although the government is downplaying the threat of mass corporate bankruptcies, analysts believe that time is running short for Korea because a slump in domestic demand and possibly weak export performance could make it difficult for over-borrowed companies to service their debts.

Mr Kim's inauguration today, which will be marked in a festive atmosphere as thousands of guests witness the swearing in ceremony at the National Assembly accompanied by celebrations around the capital Seoul, could prove to be the calm before the storm.

NEWS DIGEST

HK's electoral system attacked

Pro-democracy parties in Hong Kong have strongly criticised electoral arrangements in the territory following reports that some large companies have increased their votes in forthcoming elections through the use of shell companies. Local newspapers said companies have exploited shell companies to raise their votes in functional constituencies, the professional and commercial groups which will select 30 of the 60 seats in May's legislative elections. "The Democratic party calls for a full inquest into these fraudulent arrangements and for the abolition of the functional constituency system which encourages this type of abuse," said Martin Lee, leader of the Democratic party.

Government officials rejected claims that companies have been creating shell companies to secure votes, adding that the ultimate aim of electoral development is to introduce universal suffrage. Although shell companies are no longer allowed to join industry associations represented on functional consituencies, those that previously exploited the loophole can continue to secure votes through payment of annual registration fees.

In the case of the real estate developers association, the fee is just HK$2,000 ($260). *John Ridding, Hong Kong*

■ CHINESE RIGHTS

EU switches to dialogue

The European Union has decided to switch from confrontation to dialogue with China in its efforts to get Beijing to improve human rights. The public change in tactics came at Monday's meeting in Brussels of EU foreign ministers.

They agreed that, for the first time in many years, the EU would not try to table a resolution critical of China at the spring session of the United Nations human rights commission in Geneva next month. Instead, EU ministers are pinning hopes for dialogue on the first ever summit the EU is to hold with China a month later in London.

Past EU resolutions have been blocked in Geneva by China, and last year the EU only embarrassed itself when it even failed to agree on a common resolution text. Robin Cook, foreign secretary of Britain which currently holds the EU presidency, said the EU's "new approach" reflected progress by China. *David Buchan, London*

■ UTTAR PRADESH

Court seeks proof of majority

Political turmoil in India's most populous state, Uttar Pradesh, has taken a new turn, with the Supreme Court asking each of the rival contenders for chief ministership to prove they command a majority in the state parliament tomorrow.

The contest will pit Kalyan Singh, the state BJP leader, against Jagdambika Pal, a former Congress member, who was among two dozen legislators who split the state Congress four months ago to support a BJP-led coalition state government. The BJP-led government was dismissed last weekend by state governor Romesh Bhandari. Mr Pal was sworn in as the new Uttar Pradesh chief minister.

However, BJP leaders, including the party's prime ministerial candidate Atal Behari Vajpayee, attacked Mr Bhandari's action, saying the coalition was entitled to face a vote on the assembly floor rather than be sacked. *Amy Louise Kazmin, New Delhi*

Beijing may ease bank debt

By James Kynge in Beijing

China is considering a special bond issue to help recapitalise its state-owned commercial banks.

The idea of issuing bonds to help state banks write off crippling bad debts has been raised before but yesterday's suggestion seemed to signal a new momentum. The troubled banking sector is one of China's biggest economic problems.

The state council, or cabinet, recommended that the finance ministry carry out the issue. The proposal was under review by the highest caucus in China's parliament, the National People's Congress, which is due to convene from March 5.

China's "big four" state-owned banks, which account for more than 80 per cent of the country's banking business, are believed by many analysts to be technically insolvent. Officials concede that 20-25 per cent of their loan portfolios would be classified as problem loans by western standards.

Authorities say it is imperative to reinvigorate the banking sector to free up funds, partly to help restructure China's vast, loss-making state enterprise sector, one of the country's principal economic tasks for the next three years.

Chinese commercial bankers said proceeds of the bond issue would be added to the big four banks' capital, free of interest. There was no indication how large the bond issue would be or when it might occur.

Dai Xianglong, governor of China's central bank, outlined earlier this year a relatively comprehensive programme to strengthen regulation over China's banks, force the closure of money-losing branches and accelerate debt write-offs.

As part of this streamlining effort, authorities announced yesterday that the assets and liabilities of China Agribusiness Development Trust and Investment Corp., formerly China's second biggest trust and investment concern, have been divided up among other financial entities.

The company closed last year after real estate and stock market investments went against it. China Construction Bank took over its domestic business and the Bank of China was due to handle its affairs offshore.

Vajpayee seeks to counter 'Sonia effect' in Bombay

Film stars are making way for political stars in the city of Bombay, which is emerging as one of the telling battlegrounds in the final week of India's staggered elections.

Today Atal Vajpayee, star political performer of the Bharatiya Janata party (BJP), arrives in the west coast city just behind Sonia Gandhi, who addressed 200,000 supporters at a rally in Shivaji Park last weekend.

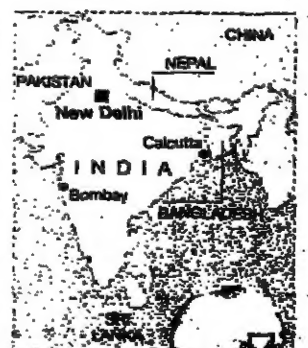
BJP activists said an even larger crowd awaited Mr Vajpayee, who is described by admirers as "the man India awaits".

The sudden rush of attention has bemused many Bombayites. "What does it matter?" said Shirin Shroff, an advertising executive who said she was more excited by the visit last month of model Cindy Crawford than the prospect of seeing Sonia Gandhi or Atal Vajpayee.

The cynicism is understandable. Bombay is not a political city like Delhi. It is India's financial and industrial heartland. Its commercial elite has avoided the hustings but bankrolled favoured candidates.

The commercial elite wants a return to the boom days of 1994-95, when stock markets roared and construction sites buzzed with activity.

It was a heady signal of the optimism driving the liberalisation policies of the Congress finance minister, Manmohan Singh. Today the markets are subdued, the construction sites empty.



India's politicians are therefore watching this metropolis of 14m people with interest.

The BJP and its allies face a more or less straight fight against a Congress-led coalition in Maharashtra. If Congress wins back seats, it will do so at the BJP's expense – reducing its chances of forming a national government. And whoever holds power in Delhi after the national election is likely to win power in Bombay too.

The current BJP-Shiv Sena state government depends on the votes of independents in the local assembly to stay in power. They are likely to jump ship if Congress comes to power at the centre. The general election is therefore also a fight for control of Mantralaya, the Bombay state assembly.

The state of Maharashtra, of which Bombay is the capital, has 48 MPs. Bombay returns six. Anecdotal evidence suggests Congress could recover.

"Congress could win 20 to 24 seats in this state," said Kumar Ketkar, editor of the Maharashtra Times. If so, he said, "it is likely to lead the next government".

Maharashtra's BJP/Shiv Sena government is a coalition of strident Hindu revivalists. Ideologically, they are as one, unlike the opportunistic 15-member coalition ruling in Delhi, whose collapse precipitated India's elections.

The BJP/Shiv Sena ousted Congress in Maharashtra at the last state election three years ago. Polls suggests this time Congress could restore its ascendancy in the city where the party was founded in the last century and which it regards as its natural homeland.

Congress was swept out in Maharashtra on a wave of grassroots agitation led by Bal Thackeray, a fierce advocate of Hindu supremacy. The leader of Shiv Sena, a militant Hindu youth outfit, he is a brilliant political cartoonist and admirer of the English author William Thackeray, whose name he adopted. He is also immensely popular in the slums of Bombay.

Mr Thackeray has tried to counter the Sonia effect by ridiculing her Italian background.

He mimicked Sonia's Hindi pronunciation before an adoring crowd of young Maratha men waving saffron banners at a recent rally.

If India wants to be ruled by a foreigner, he said, why not turn to the British. "At least they have 300 years' experience."

Shiv Sena and the BJP are making much of the state government's clampdown over law-and-order – often directed against Moslem gangs – which has seen several gangsters shot dead in controversial "encounters". Subash Desai, the party's chief spokesman, said: "Before we came to power businessmen lived in fear of extortion."

Congress is pinning its hopes on the "Sonia factor", which has galvanised the party and restored its standing in many regions. The party also expects to ride on a backlash against the state government.

It has picked up on local issues such as rising rents and poor sugar prices in the countryside.

"We were lacking charismatic leadership," said Narendra Verma, joint secretary of Indian Youth Congress. But with Sonia back, morale had "soared", he said.

Krishna Guha

Warning over Asia 'bloodshed'

By Nancy Dunne in Washington

Stuart Eizenstat, US undersecretary of state, yesterday warned that failure by the US to take leadership in the Asian financial crisis could result in instability and bloodshed in the region.

Vital US interests were at stake in the Asian financial crisis, including Washington's ability to mobilise future support for human rights and democracy in the region, he said.

Mr Eizenstat, who testified yesterday before a key House of Representatives subcommittee, is one of many administration figures on Capitol Hill pushing for the passage of a $17.9bn US contribution to the International Monetary Fund. His role was to convince a reluctant Congress that vital US interests are at stake.

A South Korea weakened by economic troubles could invite "miscalculation" by North Korea, leading to "conflict on the volatile Korean peninsula", he said. Indonesia's problems could "exacerbate social tensions and rekindle nationalistic excess". The Philippines remained "vulnerable to continued turmoil".

He added that the success of Asean (the Association of South East Asian Nations) should not be taken for granted. "The peace and progress it has helped to bring to south-east Asia may seem natural. But go back to the mid 1960s – there was tension, there were bloody insurgencies, there were shooting wars... there were communal killings.

"The changes since then have been astounding, but prolonged economic crisis and the attendant joblessness, impoverishment and despair could revive internal instability and provide fertile ground for extremism."

Guest workers may be sent home from the ailing economies, and the flow of economic refugees could increase. "In a region where old suspicions and ethnic rivalries persist, the risk of instability spreading is real."

Mr Eizenstat said the countries hardest hit were among the US's most vital allies. The crisis could strain the ability of South Korea and Japan to share the financial burden of maintaining forces in the region – including 37,000 US troops on the Korean peninsula.

Ms Charlene Barshefsky, US trade representative, stressed the new business opportunities being opened up by IMF programmes.

Thailand has made commitments to restructure public enterprises and accelerate privatisation in key sectors. These will allow foreign competition into energy, transport, utilities and communications. South Korea has agreed to improve market access for many products, while Indonesia has agreed to end government support for its national car programme, a project the US has challenged in the WTO.

Greenspan admits to uncertainty

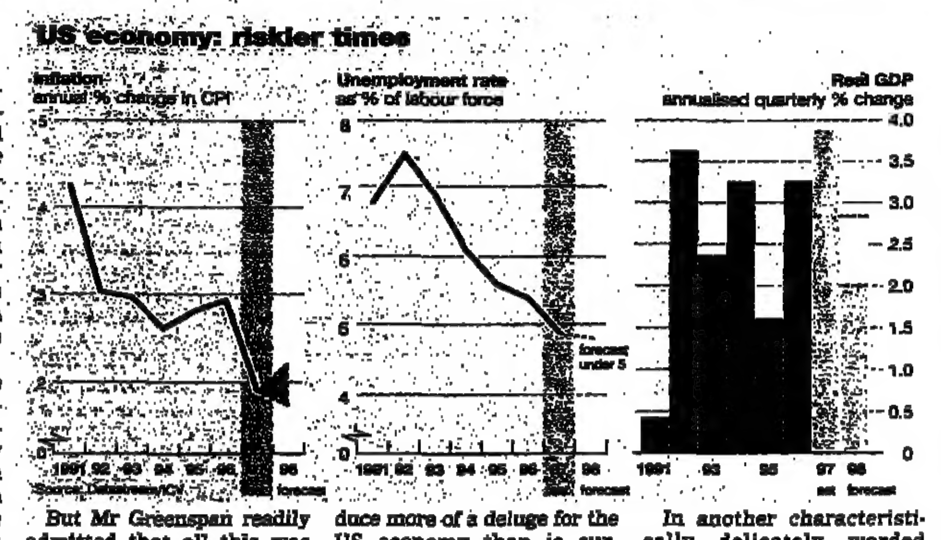
Fed central forecast on US economy could be seriously inaccurate, up or down

By Gerard Baker in Washington

When Alan Greenspan, the chairman of the Federal Reserve, last testified before the US Congress on the economy a month ago, his message was essentially an upbeat one. Though growth in 1997 had been too fast for inflationary comfort, this year the effects of the Asian crisis would probably be "helpful".

While that remained the core message of the chairman's semi-annual Humphrey-Hawkins testimony yesterday, Mr Greenspan went much further in acknowledging that there were now significant risks that could render that central forecast seriously inaccurate – in either direction.

The Fed cautiously expects growth this year to be between 2 and 2.75 per cent, against last year's estimated 3.8 per cent. Inflation should stay in its benign range of the last year of 1.75 per cent to 2.25 per cent. Unemployment is also expected to remain low – probably below 5 per cent. The main reason for the slowdown in growth and continued weakness of inflation is that the Asian effect should bring demand for labour back into line with growth of the labour supply.



But Mr Greenspan readily admitted that all this was highly uncertain. "The forecasts ... for the performance of the US economy are more tentative than usual," he said. Growth could prove to be much faster than forecast – prompting even lower unemployment and an acceleration in wages. On the other hand, it was quite possible it could slow sharply – with accompanying risks of a financial shakeout and severe slowdown.

The Fed chairman warned of two sets of risks that the US faced in 1998 – international and domestic.

On the international side, he cautioned that the "storm clouds" in Asia could produce more of a deluge for the US economy than is currently forecast which "might damp activity and prices by more than is desirable".

However, there was also a chance the Asian effect would not prove sufficient to stifle the powerful forces of domestic demand.

Mr Greenspan also took pains to point out that there were a number of domestic risks that threatened to bring an untimely end to the long period of solid growth with low inflation in the US.

The first of these was a theme the Fed chairman has cautiously identified before – excesses in financial markets with banks extending loans to riskier projects.

In another characteristically delicately worded warning about stock prices, Mr Greenspan echoed his infamous "irrational exuberance" comments of December 1996: "Quite possibly, 12 or 18 months hence, some of the securities purchased on the market could be looked upon with some regret," he said.

The second domestic risk was a political one: the growing tendency towards isolationism in Congress. Last year, lawmakers refused to grant President Bill Clinton "fast-track" authority to negotiate trade agreements. This year, they are threatening not to approve funding for the International Monetary Fund to help it deal with the Asian crises. Mr Greenspan warned that if "we were to cede our role as world leader or backslide into protectionist policies," US growth would suffer.

Third, it was too soon to pronounce inflation dead. Though great strides had been made towards price stability, vigilance was needed. Mr Greenspan again spoke supportively of the view that the strong US economic performance of recent years owed much to rapid productivity growth. Heavy investment in computers had raised output per worker by enough to produce big increases in real wages without pushing up inflation.

But he cautioned that it was still too soon to say whether these changes had lifted the US on to a permanently higher growth path.

Overall, this uncertain balance of economic risks had persuaded the Fed to alter its policy stance at the end of last year. Throughout 1997, the Fed had adopted a "bias towards tightening" interest rates. But for the early part of 1998 at least, the central bank has shifted to a symmetrical stance. That means even the sagacious Mr Greenspan cannot say, with any degree of certainty, on which side – recession or inflation – the risks are larger.

Internet taxation dispute escalates

By Nicholas Denton in San Francisco

The battle over tax revenues from internet commerce intensified yesterday when most US states came out against a bill supported by the high-tech hotbeds of California, New York, Massachusetts and Virginia.

US state governors, at a meeting of the National Governors' Association, called for a national system of taxation for goods and services bought over the internet.

Most supported an idea from Michael Leavitt, governor of Utah, allowing each state to impose one internet sales tax. The proposal is at odds with the Internet Tax Freedom Act, a bill banning new taxes on online commerce until 2004. The House of Representatives expects to vote on this in March.

Internet commerce is booming, with more than $1bn spent on online shopping in the Christmas season alone in the US.

US states fund services such as law enforcement and education through sales taxes levied through local retailers. Internet retailers, like catalogue sellers, do not charge sales tax if the purchaser lives out of state. As local retailers lose business to online stores based in states such as California, rural and rustbelt states will lose both corporate and sales tax revenues.

■ The European Commission has criticised a US proposal for reforming the internet's naming and address system, saying it would give the US too much control over the global computer network, Reuter reports from Brussels.

Washington formally published a proposal last week for phasing out its management of the address system for internet locations – such as e-mail and World Wide Web sites – and turning it over to a US-based non-profit corporation.

US tobacco giants take tough stand

By Mark Suzman in Washington

Executives of the biggest US tobacco companies yesterday told Congress they would not accept a national settlement that failed to provide the industry with some form of limited immunity against future lawsuits.

The uncompromising stand comes as Congress is increasingly reluctant to agree to such immunity as part of the proposed $368.5bn settlement following the release of documents showing the industry had deliberately targeted underage smokers.

In testimony to the Senate Commerce committee, the chief executive officers of Philip Morris, UST, Loews, Brown & Williamson and RJR Nabisco, stressed that many of the proposed restrictions on tobacco marketing and advertising required the industry voluntarily to waive its constitutional rights.

They warned that if Congress passed legislation that raised tobacco taxes without liability concessions, those restrictions and many other public health provisions would never come into effect.

Under the proposals, tobacco companies would settle all outstanding lawsuits with the states while agreeing to tough regulation by the Food and Drug Administation and strict limits on their ability to market tobacco products.

In exchange, the industry would be protected from class action lawsuits and punitive damages for past misconduct. Legal payouts in individual cases would be capped at $5bn a year.

Geoffrey Bible, chief executive at Philip Morris, said such a deal would provide much wider benefits for the public than leaving the matter in the hands of the courts.

Nick Brookes, chief executive at Brown & Williamson, warned that increasing the settlement could force companies out of business.

However, John McCain, committee chairman, warned that because the industry had lied in the past about marketing to children and the addictive qualities of nicotine this made it more difficult to believe what they now said.

Student setback over science skills

By Victoria Griffith in Boston

US students rank near the bottom of the international league in maths and science skills, according to a study released yesterday by Boston College and funded by the US Education Department.

Secondary school pupils in the US scored higher than just three nations – Lithuania, Cyprus and South Africa – in tests that compared students in 21, mostly industrial, countries. The results are particularly disappointing for US educators, who have long considered math and science the school system's strengths.

The Netherlands received the highest marks, followed by Sweden, Iceland, Norway and Switzerland.

The test-takers' age may have affected results.

The average ages ranged from 16.9 in Russia to nearly 21 in Iceland. The average age of US test-takers was 18.1.

IRAQ AND THE UN: DISMANTLING THE WEAPONS

Doubts over Unscom's authority

Kofi Annan, UN secretary-general, was yesterday pressed by the US and Britain for assurances that he had managed to preserve the professional integrity of the UN mission charged with dismantling Iraq's arsenal of deadly weapons.

Critics say the 11th-hour agreement with Iraq at the weekend could further undermine the UN disarmament mission, Unscom. Mr Annan went to Baghdad with instructions to preserve Unscom's control over disarmament. Parts of his agreement, however, leave questions about who is in charge.

Article 4A of the agreement calls for creation of a "special group", comprising senior diplomats appointed by Mr Annan and disarmament experts from Unscom and the International Atomic Energy Agency. Mr Annan is to appoint a commissioner to head this group, which some diplomats call the "dignity police".

Security Council members yesterday peppered Mr Annan with questions about the agreement, which, if successfully implemented, could avert military action against Iraq. Bill Richardson, US ambassador to the UN, asked who would be chosen as the commissioner. Diplomats pointed out that the appointment of a new chairman would detract from Unscom's authority.

Article 4B refers to "specific detailed procedures" which will be developed given the special nature of the presidential sites. Mr Richardson said the US needed "clarification on a number of issues", including how these special procedures would be developed.

The arrangements seemed to mark a victory for Iraq, which for months had pushed to politicise Unscom by widening the circle of countries involved in the process to diminish what Baghdad claimed was US and British domination.

Diplomats also worried that the new scheme would give Baghdad advance warning about what kind of inspections Unscom was about to undertake and reduce chances that inspectors would be able to do their jobs fully.

One diplomat said the Iraqis now would know whether UN inspectors were about to visit the eight presidential sites, until now placed off-limits, or other sites. It would destroy the concept of "spot" or unannounced inspections by giving Iraq time to hide, move or destroy material.

In addition, said diplomats, Iraq had banned inspection of government buildings and headquarters on the grounds they were sovereign sites. Diplomats wondered if UN inspectors would have access to these buildings despite Iraqi guarantees they would respect UN resolutions calling for full and unfettered access to suspected weapons sites.

Laura Silber

THE DEAL

The key points of pact with Iraq

Main points in the accord between Kofi Annan, UN secretary-general, and Tariq Aziz, Iraqi deputy prime minister:

● The government of Iraq made a written commitment to provide "immediate, unrestricted and unconditional" access for UN inspectors to all potential weapons sites in Iraq, as called for by UN Security Council resolutions after the Gulf war.

If fully implemented, this would allow the United Nations Special Commission, or Unscom, to fulfil its mission to find and destroy all of Iraq's chemical, biological and nuclear weapons; find and destroy the missiles to deliver those weapons; and to institute a system for long-term monitoring to make sure Iraq does not build more.

● The agreement applies to all sites in Iraq, including eight disputed presidential palaces, which were among areas where UN weapons inspectors have been denied access.

● Senior diplomats will be appointed by the UN secretary-general in consultation with Unscom and the International Atomic Energy Agency for inspecting the eight palace sites. There is no deadline or limits on the number of visits to the sites.

● The "special group" appointed by Mr Annan will operate under the established procedures of Unscom and IAEA as well as under "specific, detailed procedures which will be developed given the special nature of the presidential sites, in accordance with the relevant resolutions of the Security Council". There was no indication of what those procedures might entail, a potential troublespot.

● The United Nations reiterated the commitment of all member states to respect Iraq's sovereignty and territorial integrity.

● While there was no timetable for lifting sanctions, the agreement says that lifting them "is obviously of paramount importance" to the Iraqi people and the Iraqi government.

● The agreement notes the progress achieved by weapons inspectors and the need to intensify efforts in order to complete their mandate. The Security Council has said that once their task is completed, sanctions can be lifted. Toward that goal, the UN and Iraq agree to improve their co-operation and efficiency.

Mossad chief quits in wake of blunders

By Avi Machlis in Jerusalem

Israel's intelligence chief yesterday resigned after a government inquiry blamed him for botching an attempt to assassinate an Islamist official in Jordan last September.

The resignation of Danny Yatom, head of Mossad, comes in the wake of a series of intelligence blunders that have contributed to deteriorating relations between Israel and its Arab neighbours since the election of Benjamin Netanyahu as prime minister 21 months ago.

A successor has not been named, although agency experts say Major General Uri Sagie, former head of military intelligence, and an adviser to the former prime minister, Yitzhak Rabin, is a front runner.

They say the agency could be headed for a thorough shake-up at a time when reliable intelligence and improved communication between Mossad and Mr Netanyahu is crucial for improving relations between Israel and its neighbours.

Mossad has been in turmoil since a government-appointed committee set up to investigate the assassination attempt on Khaled Meshal, an official from Hamas, the Islamic Resistance Movement, presented its conclusions last week.

Senior Mossad officials rebelled against Mr Yatom's refusal to accept responsibility for the mission, which embarrassed the agency and caused a furious row between Israel and Jordan, its closest Arab ally. Mr Netanyahu was exonerated by the commission, although he had authorised the mission.

Mr Yatom, 53, yesterday continued to reject the committee's conclusions, denying responsibility for the operational failure and the impact on the peace treaty signed between Israel and Jordan in 1994. "But as someone who bears overall responsibility for Mossad activities, I have no intention of ignoring the report and therefore I decided to submit my resignation," Mr Yatom said in a statement.

The report said Mr Yatom failed to inform Mr Netanyahu sufficiently of the "operational and political implications of carrying out the plan". It stopped short of calling for his resignation, adding, "this should be left to the government's discretion".

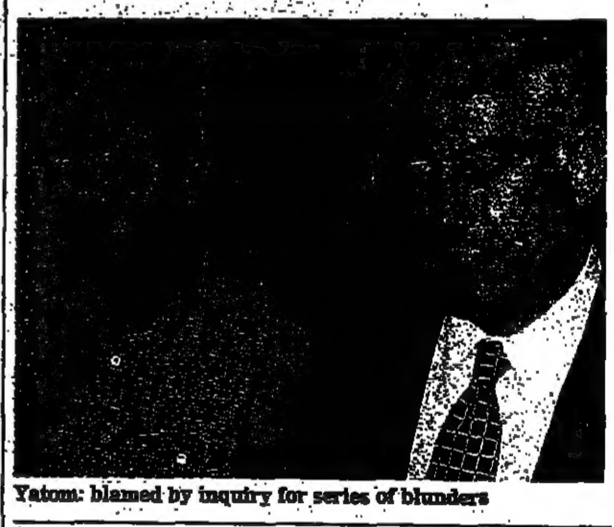
The Meshal affair, however, was just one of several recent failures that have rocked relations between the intelligence services and Mr Netanyahu's government. They highlight what agency experts believe is a lack of communication and trust between them.

Last December, Yehuda Gil, a veteran Mossad operative, was indicted for fabricating information over many years. Intelligence experts said his bogus information nearly caused two wars with Syria, most recently in the summer of 1996 when he falsely reported that Syria was planning a blitz on the Israeli-occupied Golan Heights.

In September 1996, senior defence and intelligence officials said they were never informed of the government's decision to open a controversial archaeological tunnel bordering Jerusalem's holiest Moslem and Jewish sites.

That move angered Palestinian and sparked gun battles between Israeli and Palestinian forces, leaving 61 Palestinians and 15 Israelis dead.

Yossi Sarid, an opposition parliamentarian from the left-wing Meretz party and a member of a parliamentary subcommittee on the secret services, said Mossad was heading for a "prolonged and fundamental process" reform after Mr Yatom's resignation.



Yatom: blamed by inquiry for series of blunders

OIL-FOR-FOOD

Iraqis impatient at UN welfare role

At the Hannoudi pharmacy in Baghdad's Kerrada district, most customers leave empty-handed.

"The list of medicine we don't have is long," says Hassan Melham, the owner. "And the drugs we have are in very limited supply."

This week, for example, Mr Melham had no antibiotics for children. Many of his drugs are no longer the big name brands patients had been used to.

"They keep coming back to tell me that a generic drug can't cure them when it's the exact same drug as the brand name they're looking for," he says. "It's become a psychological problem."

Acute shortages of medicine have been a sad part of Iraqi life since the imposition of United Nations sanctions after the 1991 Gulf war.

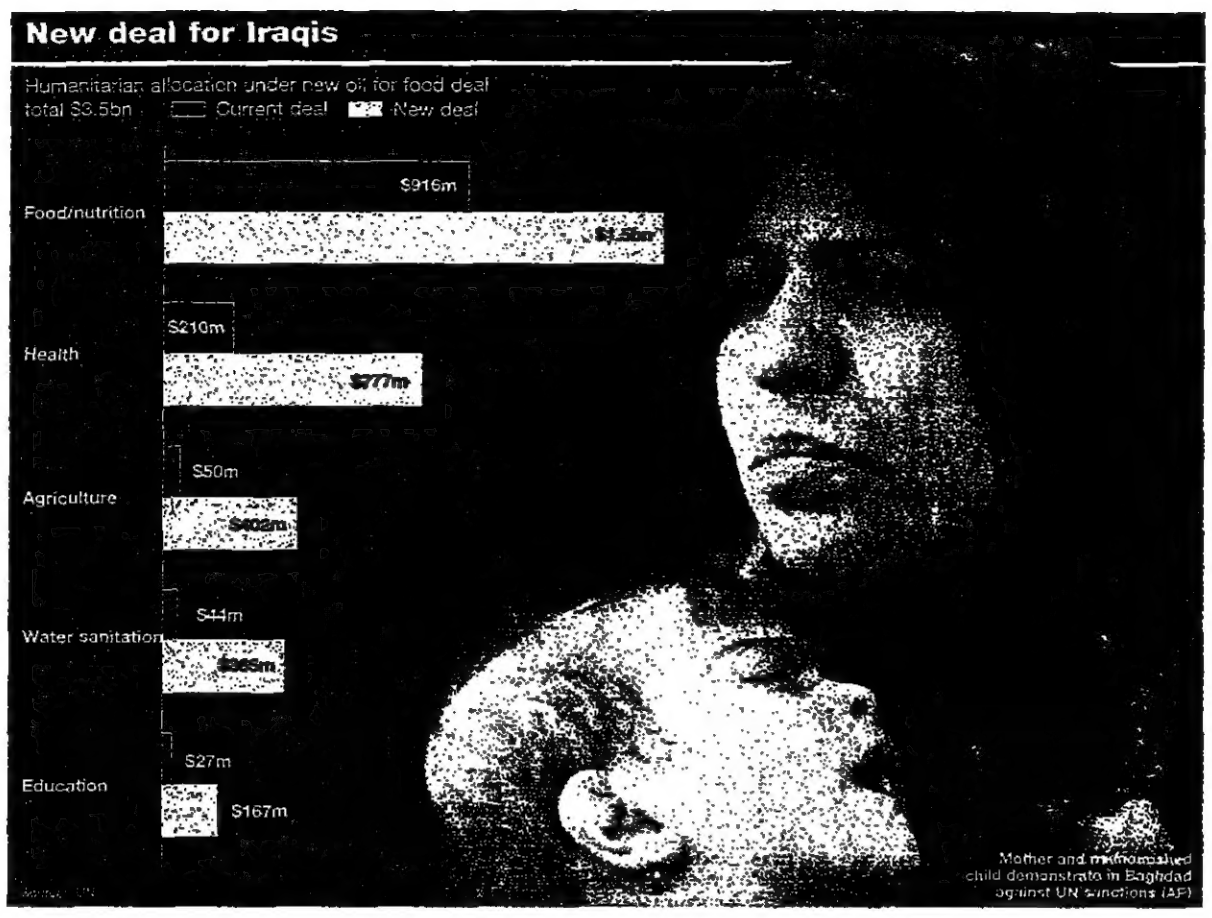
According to the UN, per capita spending on medicine dropped from $30 a year before the war to $16 today. The consequences prompted Kofi Annan, the UN secretary-general, to propose a steep increase in the so-called oil-for-food deal, which had allowed Iraq to sell $2bn of oil every six months to buy food and medicine.

Mr Annan's proposal led to a UN resolution, passed by the Security Council last week, raising oil sales to $5.3bn.

While in Baghdad on a mission to avert a US and UK-led military strike, Mr Annan agreed on Monday with Tariq Aziz, Iraq's deputy prime minister, that Iraq will start working on a distribution plan for the expanded oil-for-food deal.

But the increase, meant by Mr Annan as a measure of his goodwill towards Iraq, is less welcome to Iraqi authorities, who see the oil-for-food programme as the west's way to appease its conscience over the suffering of Iraqis while prolonging the sanctions which prevent Baghdad.

Much to the chagrin of the Iraqi government, the increase in oil sales will expand the role of the UN in Iraq as the deal works under the close scrutiny of UN observers.



Mother and malnourished child demonstrate in Baghdad against UN sanctions (AP)

Three different levels of observers roam Baghdad to inspect distribution and insure that products coming into the country are equally distributed to the population.

"We observe and try to be as little intrusive as possible," says a UN official. "It is their money after all that is buying the products."

Iraqi officials have said they can only pump $4bn worth of oil every six months – and not $5.3bn – because pipelines are in need of spare parts. As oil prices fall, even this estimate of $4bn may be optimistic.

But suspecting a pretext, the new UN resolution stipulates sending experts to work with the government on establishing its oil pumping capacity and ascertaining its spare parts needs.

In his proposal, Mr Annan stressed the need to streamline the complex procedures that have often delayed the arrival of products to Iraqi homes. UN bureaucracy and Iraqi inefficiency combined with cases of blocking of contracts by some UN member states and resistance to the programme by the Iraqi government have produced a system so nightmarish that one UN official says "it is a miracle it works at all."

It takes the Iraqi government months to produce distribution plans, while contracts have to go through a committee at the UN in which 16 member countries are represented. The US and UK have been accused of blocking contracts because some products requested – such as veterinary supplies or agri-chemicals – can have dual purposes.

Another main irritant to the government is that out of the $5.3bn that it will theoretically be able to sell, only $3.5bn will go for humanitarian needs, while the rest will be distributed to a Gulf war compensation fund and to pay for the UN operation in Iraq.

Furthermore the Kurdish north of Iraq, which is no longer under the control of the central government and is at odds with Baghdad, receives a disproportionate amount of the allocation. For example, UN figures show that under the current phase of the programme, $44m was allocated for water sanitation. The north, with a population of 3m, received $20m. The centre and south, with a population of 19m, received only $24m.

William Gardner, the oil for food expert at the UN's Food and Agriculture Organisation in Baghdad, says the enhanced oil-for-food deal should at last stop the deterioration in health and nutrition levels.

The food basket – the government ration – will be increased from 2,000 kilo-calories per person per day to almost 2,500 kilo-calories. For the first time, it will include animal proteins through the addition of cheese and powdered milk.

For Iraqis, however, the main problem with oil-for-food has always been its humanitarian rather than developmental nature. It turns the country into a huge welfare system supervised by the UN where people are handed out just enough to eat and drink and barely enough medicine to survive.

Although some funds are allocated to rehabilitate collapsing infrastructure, the government cannot invest in new infrastructure. According to a report by Mr Annan, more than $7bn would be required to address the electricity sector's operating problems and $870m are needed for immediate rehabilitation. But all that can be allocated to electricity, even with $5.3bn of oil sales, is a mere $137m every six months.

Roula Khalaf

UN agency hits at Europe over 'drug culture'

By Frances Williams in Geneva

The United Nations agency set up to combat narcotics use yesterday criticised west European societies for tolerating a culture in which the use of recreational drugs is seen as "chic and harmless".

The International Narcotics Control Board, in its annual report for 1997*, says governments have a moral and legal obligation under UN conventions to change the present "pro-drug" environment undermining efforts to restrain drug use.

The board, an independent semi-judicial agency based in Vienna, argues that strategies to reduce demand for illegal drugs and prevent abuse and addiction cannot succeed if young people are being fed a different message by pop idols, the fashion world, some politicians and much of the media.

Governments "must be ready to confront cultural trend setters actively creating a 'drug-friendly' environment," the board says. The report urges promotion of an anti-drug culture, similar to the campaign against smoking that has significantly changed public attitudes in the west.

The board complains that pop music often extols drug use or treats drugs as part of a normal lifestyle. Pop stars who die of drug overdoses are hailed as departed idols rather than examples of the dangers involved.

The media tended to focus on the debate over liberalisation or legalisation of soft drugs. Instructions on how to make "designer drugs" could be found on the internet.

The board is worried about the proliferation of schemes permitting heroin addicts to receive opiates under medical supervision, which it believes impair global programmes to tackle narcotics use.

This view is likely to be challenged by countries such as Switzerland, which has introduced a programme of legally prescribed heroin to reduce crime and disease among addicts.

The board's report focuses on reduction of demand for drugs ahead of a special session of the UN General Assembly in June which will adopt an international declaration on the subject.

Other issues raised by the report include the growth in abuse in eastern Europe of opiates derived from poppy straw, and a continued rise in US consumption of diet pills containing amphetamine-type stimulants, which the board warns are addictive and dangerous.

**UN Information Service, Vienna International Centre, PO Box 500, A-1400 Vienna, fax +43 1 21345 5899 or http://www.undcp.org.*

OIL MARKET

New wave of Iraqi supplies expected to force down prices

More than a few government officials in the Middle East have breathed sighs of relief in the last two days at the apparently peaceful conclusion to the confrontation between Iraq and the UN. But oil ministry officials throughout the Gulf were probably not among them.

They have been busy trying to assess the impact on oil prices of a deal that could unleash a new wave of Iraqi oil exports into already over-supplied world markets.

Oil futures prices have been steadily marked down over the past week as the prospect of a diplomatic deal became clearer. Last night Brent Blend for April delivery was trading at $13.92 a barrel, nine cents above Monday's close of $13.83, but more than 30 per cent lower than last autumn.

The prices of many Gulf crudes are even lower, a development that has caused several governments, such as Iran, to reassess budget plans finalised only last month.

The presence yesterday of the former Iranian president Akbar Hashemi Rafsanjani in Riyadh, the Saudi capital, highlighted the growing worries of the oil-dependent states of the region.

Rafsanjani: bid to halt oil price slide

Mr Rafsanjani, who was accompanied by Bijan Namdar Zanganeh, Iran's oil minister, said Tehran and Riyadh were co-operating to try to prevent oil prices from sliding further: "It gives us pleasure to say that there is co-ordination between the two countries and ministers and officials are doing their best to maintain the prices as they were decided by Opec," he told a news conference.

But Iran, which is struggling to fulfil its enlarged quota from the Organisation of Petroleum Exporting Countries, is not part of the over-production problem that lies at the heart of Opec's current dilemma.

Neither is Saudi Arabia. But many look to Opec's dominant member to put a floor under prices by shaving its own production. So far it has steadfastly refused to do so: "A (symbolic) cut of 200,000-300,000 barrels a day will not technically do the trick," said a senior Saudi official last week.

Although Opec officials have consulted each other widely over deteriorating market conditions, there has so far been little public evidence to suggest widespread support for Saudi Arabia's call for a concerted effort by the exporter's group to stabilise oil prices.

Riyadh insists it is prepared to "wait, wait and wait" for clear evidence that Opec states producing above their quotas – and especially Venezuela – are reining in output. Opec over-production is reckoned to be running at 1.3m barrels a day above the overall ceiling of 27.5m b/d set at last November's meeting in Jakarta. But Opec states face an even bigger problem over the next few months if there is a sharp rise in Iraqi output as part of an enlarged oil-for-food programme.

Officials in Baghdad yesterday said capacity restraints made it unlikely that Iraq would be able to meet the UN's proposed target of $5.2bn of oil exports every six months. The officials said a $4bn target was more realistic.

But oil analysts say even the lower figure will weigh heavily on oil markets, unless there is a significant supply disruption elsewhere to compensate for higher Iraqi exports.

A research note published by London brokers Société Générale yesterday estimated that demand for Opec oil this year may at best be around 26.7m b/d. But Opec production – bolstered by additional Iraqi exports – could rise to 29.4m b/d unless there is a radical change of policy by chronic quota busters such as Venezuela, Nigeria and Qatar, and/or a massive cutback by those respecting their quotas.

It is figures such as those that cause Gulf oil officials to sigh in frustration and fear, rather than relief.

Robert Corzine

EU DIPLOMACY

Britain plans Mideast visit

The UK presidency of the European Union is to try to step up its mediation in the Middle East peace process in a bid to show Arab states it seeks justice for Palestinians as fervently as ridding Iraq of mass destruction weapons.

Tony Blair, the UK prime minister, will visit Israel, the Palestinian territories and Egypt sometime in April, the Foreign Office said yesterday. Paving the way for this, Robin Cook, the UK foreign secretary, will visit the same region in mid-March.

"The UK presidency of the EU will thereby try to give Europe a higher profile in the Middle East peace process". Derek Fatchett, a junior Foreign Office minis- said yesterday.

"Lack of progress in the Middle East peace process should never ever give Saddam Hussein (the Iraqi president) an excuse to break United Nations Security Council resolutions" on Iraqi disarmament, he stressed. Britain wants a new Security Council resolution enshrining the new inspection deal with Iraq and mandating force if Iraq breaks the agreement. Mr Fatchett said the UK would keep its forces in the Gulf "until we are convinced Saddam Hussein is going to be a man of his word".

But the UK minister acknowledged there was "a substantial read-across" from the Arab-Israeli dispute to the rest of the Middle East.

UK officials said Mr Blair had already planned to visit the Middle East during Britain's half-year presidency of the EU, while Mr Cook had scheduled his own trip for April. But in the wake of the incipient diplomatic solution to the Iraqi crisis, these preparations have moved into higher gear.

EU diplomacy alone is unlikely to end the stalemate between Israel and the Palestinians, though it could help spur Washington into renewing its own mediation efforts. But the Blair and Cook visits might at least soothe widespread Arab resentment at Britain for having been ready to join the US in bombing Iraq.

Several British MPs expressed concern that the UK might now be penalised commercially by Arab states in favour of other European countries, like France, which preached diplomacy and rejected force.

David Buchan

Telecoms group hits back at US carriers

By Henry Tricks in Mexico City

Telmex, the Mexican telecommunications company, has said it may complain to the World Trade Organisation that AT&T and MCI, the US carriers, have blocked its access to the US market.

The threat comes after AT&T and MCI last week urged the Office of the US Trade Representative to initiate WTO dispute settlement proceedings against Mexico.

The two US companies accused Mexico of protectionism in favour of Telmex, which had a long-distance monopoly in Mexico until August 1996.

It was the first public appearance for Carlos Slim, the Telmex chairman and the wealthiest man in Latin America, after a grave illness and heart surgery, and he appeared in combative form.

He described the attitude of his rivals in long-distance market telecommunications as similar to "a young child crying in order to get attention."

He added: "If you're talking about complaining [to the WTO], why should it just be them?"

Telmex received preliminary approval last year for entry to the US market from the Federal Communications Commission, the US regulatory body.

Mr Slim said the alleged attempts by the US carriers to block Telmex were unfair, given that they had operations in Mexico.

Both are involved in joint ventures with local companies, AT&T with Alestra and MCI with Avantel respectively.

Mr Slim said he believed that Telmex had the backing of Mexican authorities, although final details on when and how the company would approach the WTO were still not clear.

The two US carriers claim they and their local partners pay too high rates to Telmex for interconnection to its local network. Avantel says it and MCI have had to suspend $900m in planned investments in Mexico.

But Mr Slim dismissed the complaints of MCI and AT&T as "delaying tactics" aimed at halting Telmex's entry into the US.

He said Telmex remained committed to entering the US market, though he would not speculate when it would be allowed to join. Its entry was originally planned for January 1.

Mr Slim also noted that Telmex's most controversial interconnection fees, including a 58 per cent surcharge on inbound international traffic, were subject to negotiation this year. New levels would be set for 1999.

Telmex officials said Javier Lozano, Mexico's deputy communications minister, has called on those involved in the dispute to present proposals which it was hoped, will break the deadlock.

A six-point agenda, which is to include interconnection charges and international settlement rates charged to complete calls in Mexico, is to be negotiated shortly.

Cigar makers eye Europe to build sales

By Canute James in Kingston

Cigar producers in the Dominican Republic, the world's biggest exporter of premium hand-made cigars, warned yesterday that the US market was saturated and that further sales growth would have to come from Europe.

The Dominican Republic exported 258m premium cigars last year, an increase of 50 per cent on 1996, said Hendrik Kelner, president of Procigar, the Dominican producers' association.

But Mr Kelner said it would be hard for the industry to sustain its present rate of growth, as 93 per cent of sales last year were in the US. "We will not have any significant expansion in the US market this year," he said.

"We will try to get more involved in the European market, but this will be difficult."

Dominican producers fear a possible loss of market share in the US and expect to be overtaken by Cuba as the world's leading exporter if Washington ends its embargo on imports from the island.

Mr Kelner said: "We are not now afraid of competition from other countries, but our main threat is from new Dominican cigar factories that do not maintain the high standards of quality and production that have made the Dominican Republic the world's leader in the production of premium."

Dominican control of the US premium cigar market has been made easier by the inability of Cuba, the Dominicans' neighbour and a major competitor, to sell to the US.

However, the Cuban cigar industry is already well established in Europe. Cuba, the world's third biggest exporter after Honduras, sold 103m cigars last year, but plans to produce 160m this year, moving to 175m by 1999 and 200m by 2000, according to Manuel Garcia, vice-president of Habanos, the country's exporter.

Cuba's main market in Europe is Spain, and the island plans to lift exports to Spanish distributors this year to 40m, 4m more than last year. Cuba also has substantial markets in France, the UK, Switzerland and Germany.

Mr Kelner acknowledged that Cuba's previous success in Europe meant it would be difficult for the Dominican industry to make a "big and immediate impact" on the market. "It will be easier for my company, which produces for Davidoff, the Swiss label," he said.

"For the Dominican industry in general, however, breaking into the European market will not be easy."

Dominican sales to the US have been adversely affected by a small but growing US black market in Cuban cigars. The Cuban product is freely available in stores in several Caribbean countries, and is frequently stripped of its label by US tourists and then smuggled into the US under the guise of either Jamaican or Dominican cigars.

The Dominican industry was also troubled by difficulty in obtaining wrapper leaves for its premium cigars, Mr Kelner said. Insufficient quantities are produced by the domestic industry, and sources of imports such as Connecticut and Ecuador have been hit, respectively, by disease and drought.

The success of efforts to increase sales to Europe means much for the cash-strapped economies of both the Dominican Republic and Cuba. The Dominican economy earned $210m last year from its cigar exports, while Cuban officials have valued projected exports of their more expensive cigars this year at $240m.

Airbus upbeat about Asian aircraft demand

By Jeremy Grant in Singapore and agencies

European aircraft manufacturers said yesterday that Asian markets held long-term potential even though the regional economic crisis had led some companies to defer orders.

Business and tourist travel had slowed in the region and some regional carriers had scaled back expansion plans after years of rapid growth, the manufacturers said.

But Airbus Industrie, the consortium of European manufacturers, said it was maintaining its 20-year market forecast for the region of average year-on-year traffic growth of 6.5 per cent. "Once the current short-term difficulties have been overcome, we are confident that the airlines of the region will return to above worldwide average, positive growth," said Jean Pierson, president and chief executive officer.

Airbus is more optimistic in its estimates than the International Air Transport Association, which represents the world's airlines.

Iata said last week that it had revised its estimate for annual travel growth in the Asia-Pacific region down from 7.7 per cent over the next four years to 4.4 per cent. Before the financial crisis struck, the association had predicted that the region's share of world traffic would grow to 50 per cent in 2010 from 35 per cent in 1995. It now expects Asia-Pacific's share to fall to 33 per cent by 2010.

Mr Pierson said Airbus – which is owned by Aerospatiale of France, Daimler-Benz of Germany, British Aerospace and Casa of Spain – had been asked to delay three A320 aircraft due for delivery in the fourth quarter.

Indications for 1999 looked as if orders for four A321s would be deferred.

Other manufacturers said they had received similar requests. Rolls-Royce, the UK aero-engine maker, said it expected to lose sales as a result of fewer options being exercised on aircraft purchases.

However, Rolls-Royce said that no orders had been cancelled so far. John Rose, chief executive, said there had been no "material" change to sales projections.

Separately, Mr Pierson said Airbus's plans for a new 100-seater aircraft had run into difficulties because it was not yet clear how the venture could be profitable.

Spanish army to equip with German Leopard 2 model

Spain and Germany agree $2.1bn battle tank deal

By David White in Madrid

Aznar: Spain committed to a joint European approach in arms and aerospace

Spain and Germany gave the go-ahead yesterday to a $2.1bn joint programme to equip the Spanish army with the latest generation of German-designed Leopard 2 battle tanks.

After talks with Helmut Kohl, the German chancellor, and senior ministers, José Maria Aznar, Spanish prime minister, emphasised Spain's commitment to a joint European approach in arms and aerospace.

The deal was agreed at a wide-ranging bilateral summit held at the El Escorial monastery near Madrid. Spain's previous government had signed a memorandum of understanding about the deal in 1995.

Co-operation in defence projects was one of the main themes of the El Escorial summit. Mr Aznar cited as examples both the four-nation Eurofighter 2000 combat jet, to which Spain has committed $6.4bn in production funding, and the recent $2.6bn Airbus order placed by the state-controlled Iberia airline. Spain's Casa aerospace company is a partner in both ventures.

However, Mr Aznar's comment appeared to conflict with his government's insistence at the time of the Airbus deal that it had not influenced Iberia in opting for the European company instead of Boeing-McDonnell Douglas of the US.

The tank deal promises a vital workload for the armoured vehicles division of Spain's troubled state arms group Santa Bárbara. The division is due to be transferred to private-sector control, with Spanish officials raising the prospect of a possible shareholding interest by Germany's Rheinmetall.

The priority given by the Spanish government to European arms co-operation was earlier demonstrated by its decision to overrule army chiefs and buy Cougar military helicopters from the Franco-German Eurocopter group, instead of the Black Hawk, made by Sikorsky of the US – the army's preferred choice. The 15-helicopter deal, worth about $200m, was linked to offset arrangements including the purchase by France of CN-235 transport aircraft from Casa.

The tank deal covers 235 units, including 16 tank recovery vehicles. Co-production arrangements with the Mannesmann subsidiary Krauss-Maffei, the Leopard's German manufacturer, have still to be finalised. Spanish defence officials said they were seeking at least a 60 per cent share of the work and industrial offsets equivalent to a further 20 per cent of the contract value.

Deliveries are due to start in 2000, some two years later than originally envisaged. In the interim, Spain is already operating 108 Leopard 2 tanks on temporary lease from the German army and assigned to mechanised units of the five-nation Eurocorps. German and Belgian units in the Eurocorps also operate Leopard 2s. The tanks will progressively replace French-made AMX-30s and second-hand US M-60s currently in service with the Spanish army.

Prime minister claims four confirmed backers are 'just the beginning'

Dome sponsors pledge $98m

By Brian Groom

Tony Blair, the prime minister, yesterday launched an impassioned plea to rescue the millennium dome from the public derision which has threatened to engulf it. Unveiling some of the dome's key attractions, he promised the year-long experience at Greenwich in south-east London, would be "the envy of the world".

Mr Blair said four "founding partners" – British Telecommunications, Manpower, Tesco and British Sky Broadcasting – had swung behind the project with sponsorship of at least £12m each.

New Millennium Experience Company, the dome's organiser, said it had confirmed sponsorship of £58.8m ($98m), with a further £16m awaiting detailed negotiation – taking the total halfway to the target of £150m.

Mr Blair said this was "just the beginning of a raft of new sponsors for the dome". BAA, the airports group, and British Airways had also made a "substantial commitment" and the City of London Corporation had pledged up to £6m if this was matched by money from City businesses.

Camelot, the lottery operator, will be official ticket distributor for the Experience.

Some companies have driven hard bargains to make sponsorship match corporate objectives. BT is not supporting the main exhibition zones, but a new zone called Time to Talk!, focusing on communications.

The public, which has shown hostility to the project in opinion polls, may be harder to win over. Mr Blair yesterday attacked the "cynics and snipers", saying the Experience would be a celebration "so bold, so beautiful, so inspiring that it embodies at once the spirit of confidence and adventure in Britain and the spirit of future in the world".

He told business executives and newspaper editors during a meeting at London's Royal Festival Hall – the legacy of the 1951 Festival of Britain: "Britain is a place for daring and boldness, for striving for excellence . . . It promises to be the most fantastic day out in the world."

He unveiled models of seven of the 13 exhibition zones. The Body Zone is dominated by a large human figure – its gender still undecided.

The work area includes two zones, Licensed to Skill – a pun which caused groans among journalists – and the Learning Curve. The Skill zone, sponsored by Manpower, the employment services company, will allow visitors to try new jobs using virtual reality headsets, while the Learning zone, involving Tesco, the supermarket group, will include internet projects for children.

The Serious Play zone, where BSkyB is the main sponsor, involves interactive games and Living Island recreates a "typical British seaside resort". Dreamscape is a ride through dream environments, while Spirit Level creates "an oasis of calm and reflection".

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Blair seeks to seduce the sceptics

Millennium zones unveiled in attempt to woo public and business

The bandwagon is beginning to roll, Tony Blair insisted yesterday as he unveiled plans for Britain's millennium dome before an audience of company executives and newspaper editors over breakfast at London's Royal Festival Hall.

Dismissing the "cynics and snipers", the prime minister promised that the dome would be the envy of the world. "It will bring the nation together in common purpose," he said. Thus far the dome has united Britain only in derision. If Mr Blair is to succeed, he must turn a tide of scepticism among the media, sponsors and the general public.

This morning's newspapers may give the first indication of whether media hostility will abate. Weary executives of New Millennium Experience, the dome's organiser, point out that, while many newspapers have pilloried the dome, their marketing teams have been discussing reader promotions involving the dome in the belief that it will ultimately prove popular.

New Millennium is making headway in convincing sponsors, announcing pledges yesterday that take it nearly half way to its target of raising £150m ($250m) in sponsorship towards the dome's £758m budget. Confirmed sponsorship has now reached £58.8m with a further £16m awaiting detailed negotiation.

It may be the public, at the end of the day, who will be the hardest to convince. According to opinion polls, four-fifths think the money would be better spent elsewhere.

Yesterday's unveiling of seven out of 13 exhibition zones, if anything makes it harder, rather than easier, to sum up what the Experience will be about. The aim seems to be to overwhelm the public with a huge diversity of attractions.

Poised between education and entertainment, Mr Blair found it easier to describe what the dome is not, rather than what it is: "Exhilarating like Disney World – yet different. Educational and interactive like the Science Museum – yet different. Emotional and uplifting like a West End musical – yet different."

It also seems poised, at times, on the edge of bad taste. The naming of one zone "Licensed to Skill" brought groans from journalists, as did re-naming the spirit zone as "Spirit Level".

The project continued its flirtation with personalities whom some would see as passé. It was disclosed that Peter Gabriel, the rock star, will work on the show for the centre of the dome. He and Mark Fisher, the set designer who has worked for the Rolling Stones, Pink Floyd and U2, will devise a new story and score to replace the one originally planned by Sir Cameron Mackintosh, which was dropped before Christmas.

Of the seven zones, the Body Zone, with its giant human figure, is the best known. Visitors will enter through the back of its waist, explore exhibits on human biology and medical science, look through its eyes, and exit through its heel.

Others zones include the Spirit Level, which represents a see-through tent and will demonstrate the influence of Christianity and the presence of other religious traditions; Serious Play, which will have kinetic multimedia displays rising towards the roof; and Living Island, which will take visitors on a journey to a typical British seaside resort, complete with beach, fish and chip stall, deck chairs, sun and sea.

In spite of fears that sponsors would sign up just to avoid offending the government, those announced so far have found projects that support their corporate objectives.

Four "millennium founding partners" – British Telecommunications, British Sky Broadcasting, Manpower and Tesco – have committed a minimum of £12m each in sponsorship. British Airways and BAA have pledged smaller sums.

New Millennium is in discussions with a further 40 businesses including Swatch. It also said Camelot, the lottery operator, would be official distributor of dome tickets.

The centrepiece of BT's sponsorship is a plan to offer a free e-mail address to everyone in Britain over the age of nine. Mill-e-Mail, based on the worldwide web, is aimed at those with an e-mail account at work but who want a personal address; those who share e-mail through an internet service provider; and those who can access the internet in cafes, libraries, airports and, in future, through TV sets. BT has also negotiated its own zone in the dome, Time to Talk!

Manpower, the employment services company, will sponsor the work zone, "Licensed to Skill". Mitchell Fromstein, president, said it wanted to deliver "a consistent and clear vision of the future of work".

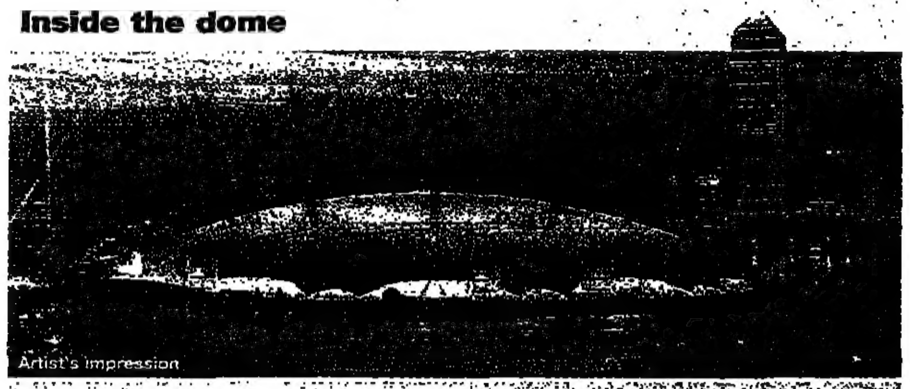
BAA, the airports group, is spending £7m on sponsoring an area of the dome, staging a nationwide youth sports event, and rebranding Stansted airport to the north-east of London as the "Millennium Gateway".

Will the dome be a success? We will probably not know until visitors arrive in January 2000. Organisers hope that sceptics will be seduced by the experience, as the public was during the 1951 Festival of Britain.

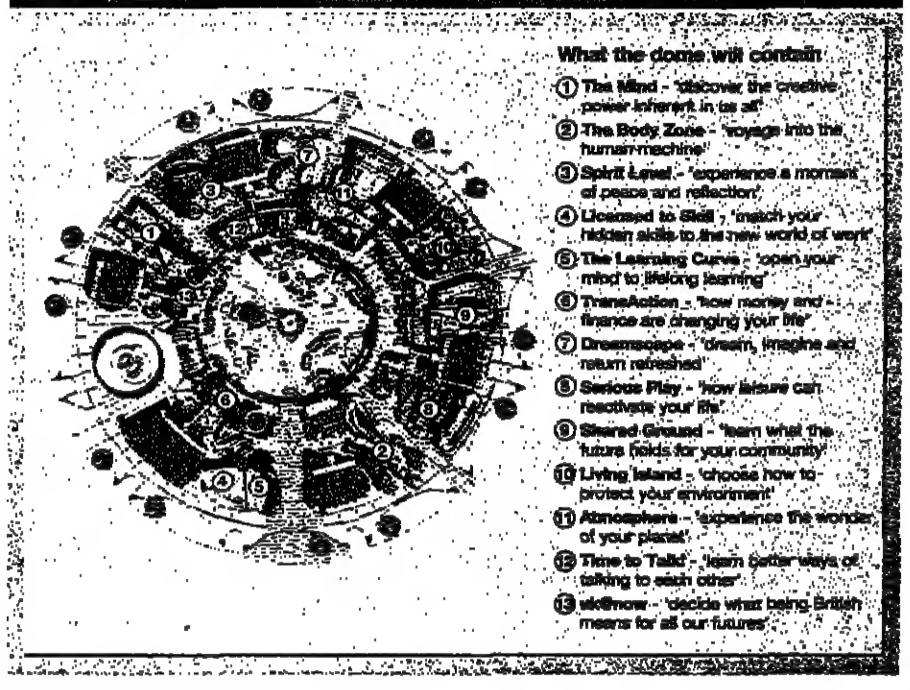
In the meantime, there are problems to solve such as ensuring transport arrangements are in place. The Underground train network is being extended, but further delays to the opening of the jubilee line extension could prove disastrous.

Brian Groom

Inside the dome



Artist's impression



Blair 'has not ruled out' meeting Sinn Féin

By John Murray Brown in Dublin and David Wighton in London

Tony Blair, the prime minister, has not ruled out a meeting with Gerry Adams, the Sinn Féin president, in spite of threats that the Ulster Unionist party may withdraw from peace negotiations if the meeting goes ahead while Sinn Féin, the political wing of the Irish Republican Army, is barred from the talks process.

Downing Street said the prime minister had not made a decision on Sinn Féin's request for a meeting, amid concern that the republican leadership may not return to the Northern Ireland talks on March 9 after their suspension.

But as Mr Adams met Bertie Ahern, the Irish prime minister, in Dublin yesterday, the Sinn Féin leader appeared to be making his meeting with Mr Blair a precondition for the party to rejoin the process.

"We have made it clear that we will not go back before we have spoken to both the prime minister and the taoiseach. When we meet is a matter for the British prime minister. But we will be meeting – I have no doubt about that. I would like to see Mr Blair follow the example set by Mr Ahern," Mr Adams said.

Earlier, in the Dail, the Irish parliament, Mr Ahern said there would be no change in the conditions for parties to take part in the talks, rebutting Sinn Féin suggestions that the talks rules had to be reconsidered after the party complained it was expelled after police linked the IRA to two recent murders without providing the evidence.

As official concern mounted over further attempts by extremists to derail the talks, Paul Murphy, the government's Northern Ireland political affairs minister, said the weekend bomb at Moira, a loyalist, anti-republican town in county Down, "certainly had all the hallmarks" of the Continuity Army Council, which opposes Sinn Féin's presence at the talks.

Mo Mowlam, the Northern Ireland secretary, said she would make the security assessment about a bomb at Portadown, another loyalist stronghold, known when she received it, but did not know if it would be available before the Prime Minister decided if he would agree to a meeting with Mr Adams.

As security barriers went back in place in Londonderry, the Northern Irish city near the border with the Irish Republic, the talks resumed, with Irish officials claiming progress had been made on the controversial area of North-South linkages.

UK NEWS DIGEST

Bank chief in export pledge

Eddie George, governor of the Bank of England, the UK central bank, yesterday sought to reassure exporters suffering from the effects of a strong pound, saying the domestic economy was likely to slow, but he refused to predict when a slowdown might lead to lower interest rates.

Mr George, who was in the city of Manchester yesterday to meet north-west businesses, said the current strength of domestic demand meant that any easing of monetary policy would lead only to "another round of boom and bust". The Bank's job was to limit inflation to the government's 2.5 per cent target.

Last month Mr George decided against an interest rate increase saying that while domestic demand had to be moderated, upward pressure on inflation was insufficient to justify a rate increase. Yesterday he said that domestic demand should fall in the course of the year in response to a tightening of fiscal and monetary policy, and the lack of large windfall payments from mutually owned home loans and savings institutions. *Sheila Jones, Manchester*

■ VOTING REFORM

Opposition leader to oppose PR

William Hague, the opposition Conservative party leader, claimed in a London speech last night that the "key to real democracy" was the first-past-the-post system of electing MPs, because it gave voters the ability to throw out an unsuccessful government.

Conceding that the Conservatives would have to accept other elements of the government's constitutional reform programme – and would work with Labour to make the proposed new Scottish parliament work properly – Mr Hague mapped out his tactics for opposing the introduction of proportional voting in general elections. This is viewed by most of his colleagues as the most important battle he will face during the lifetime of the parliament.

"PR [proportional representation] is a system of unfair votes," Mr Hague said. "It takes political power away from the electorate and gives it to small parties."

The government has pledged to hold a referendum on the system of electing MPs, but the prime minister is yet to decide whether to give his personal backing to a switch to a proportional approach. *Robert Peston, London*

■ COMPUTER 'BOMB'

Government said to be failing

The British government is failing to provide adequate support for its own campaign to defuse the millennium "computer bomb", according to the group representing risk managers in the UK's leading private and public sector organisations.

The Association of Insurance and Risk Managers said yesterday that the government's Action 2000 campaign was inadequately funded and lacked credibility among small and medium-sized companies where the need was most acute.

The computer "bomb" is a consequence of programming techniques that means most computers are incapable of distinguishing between this century and the next, opening the possibility of serious business and social disruption after 2000. Action 2000 was established late last year with £1m ($1.67m) funding but has been attacked for tackling the problem with insufficient urgency.

Airmic's views have special significance because it represents executives with a professional responsibility for managing risk in their companies. Its surveys indicate that most large UK organisations are well advanced with their preparations although more than half expected problems completing the work on time or finding sufficient computer staff. *Alan Cane, London*

■ ENGINEERING

Move to beat skills shortages

A £3m ($5m) advertising campaign is being planned by Britain's engineering industry to raise the profile of the profession and counter skills shortages claimed to be jeopardising its future. Four big advertising agencies – Moffatt Associates, Team Saatchi, J. Walter Thompson and Grey Advertising – are bidding to run a campaign.

The campaign, due to start next year, would be aimed at countering the negative images that many have of engineering which its leaders believe dissuade people seeking careers in the industry. The advertising effort would be backed by big British and non-British companies which the scheme's supporters believe would be willing to pay large sums to reduce the shortages of talented people entering the sector.

"Engineers have low unemployment, high job satisfaction and a better than average chance of getting to the top of a FTSE 100 company – but the industry has been poor at getting the message across," said Michael Heath, director-general of the Engineering Council, which represents professional engineers. *Peter Marsh, London*

■ MINIMUM WAGE

Companies prepare for change

A growing number of companies are already adapting their wage structures in anticipation of next year's introduction of the statutory minimum wage, according to evidence published today by Incomes Data Services.

The survey, commissioned by the Low Pay Commission, found 117 specific wage agreements negotiated over the past 18 months where the pay rates of the lowest paid have been substantially improved relative to other employees. A large proportion have set a minimum level of £4.00 ($6.68) an hour or more. "Almost all the organisations concerned have had an eye on the prospect of a minimum wage," says the report.

But it adds that both recruitment pressures in the labour market and trade union aspirations have also contributed to the trend. The companies have "not expressed undue concern in public about the cost of the exercise", the report adds. *Robert Taylor, London*

Deputy PM says Channel rail link will go ahead

By Charles Batchelor, George Parker, and Charis Gresser

John Prescott, deputy prime minister, yesterday committed the government to finding a way to build the £5.4bn ($9bn) high speed rail link to the Channel tunnel even if London & Continental Railways fails to produce a solution by tomorrow's deadline. The tunnel joins England and France.

"If you build a tunnel you want to maximise its use," he told 18 European transport ministers at a London conference on the role of public-private partnerships in funding transport investments.

"We need to exploit this investment much more effectively than at the moment so it is crucial to have a fast rail link . . . My full intention is to provide a properly structured future for a premium rail service between London, Paris and Brussels."

Mr Prescott is due to hold a meeting with executives from LCR before updating MPs tomorrow. He is expected to announce an extension to the waiting period to consider proposals to save LCR. However, Mr Prescott's office dismissed reports that the delay could be as long as three months.

LCR's losses on Eurostar operations are thought to be about £20m a month and any extended delay could raise the possibility of the government picking up the increased liabilities before a deal is signed.

Mr Prescott said the previous government's view that "private sector equals good, public sector equals bad" had contributed to the later financing difficulties of transport projects, including the high speed link.

Mr Prescott warned that projects, such as the rail link, that ran into difficulties damaged prospects for mixing public and private capital. "The more failures we have, the more we undermine public-private partnerships," he said.

Sir Alastair Morton, former co-chairman of Eurotunnel and a government adviser on transport, said the rail link had repeated two of the mistakes made on the Channel tunnel.

First, it was promoted by a broadly based consortium, LCR, whose members had been unable to work together. Second, the project's promoters had failed to get the financing right at the outset.

It emerged yesterday that Eurostar's £140m operating loss in 1997, including depreciation, was higher than its entire turnover of £130m. The service had to pay more than £100m in combined access charges to Railtrack and Eurotunnel.

The Eurostar service is expected to break even at the pre-tax level by 2004. Any train operator would need £400m of subsidy to keep it afloat until then.

● Plans for a £2.1bn modernisation of the main west coast rail line between London and Glasgow will provide less than half the capacity required for rail freight, English Welsh & Scottish Railway, the US-owned freight operator, warned yesterday. EWS fears that a proposed revenue-sharing deal between Railtrack, which owns the rail infrastructure, and Virgin Rail, which wants to run 140mph tilting trains on the route, will shut out the slower trains run by freight operators.

Plan to impound unlicensed trucks

"Cowboy" hauliers who operate illegally are to be driven off the road under a new initiative to be announced today by Gavin Strang, transport minister, George Parker writes.

Mr Strang will argue that unlicensed lorries are often unsafe and that they pose unfair competition to law-abiding operators.

To tackle the problem, Mr Strang will announce new powers for inspectors to detain illegal heavy goods vehicles, and to tow them away to newly created truck pounds. Illegally parked private cars have long been subject to such impounding.

Mr Strang believes illegal trucks tarnish the reputation of an industry whose drivers often consider themselves "knights of the road".

"The practice of illegally operating vehicles is a serious road safety risk both to the drivers themselves and to other road users," he will tell the Freight Transport Association national conference today.

Mr Strang will concede that the "tow away" scheme could create practical problems – including that of dealing with a perishable cargo – and that consultation with the industry was needed.

Urban renaissance plan attacked on all sides

Developers and conservationists say more public money is needed

Almost 5,000 people each week move from England's bigger towns and cities to the countryside, threatening the rural environment, according to a report commissioned by the Council for the Protection of Rural England.

Publication of the report this week coincided with a government announcement increasing – from 50 per cent to 60 per cent – the proportion of homes expected to be built on previously developed, or "brownfield" land.

The move may stem some of the criticism that Labour – which traditionally draws its strongest support from urban areas – is no friend of the countryside. Next Sunday's Countryside March in London is expected to include thousands of rural residents just as anxious to preserve the views from their homes as fox hunting supporters are to protect their sport.

John Prescott, the deputy prime minister, has been attacked for allowing the development of greenbelt land in Hertfordshire, the county to the north of London, and near the city of Newcastle upon Tyne in the north-east. But he says Labour wants to protect the countryside by encouraging building in urban areas.

"Urban renaissance is absolutely crucial," he says. "I believe people do want to live in cities, if we can recapture them for a more beautiful style of living; if we can make them more secure; if we can take back the inner cities which, in some areas, are dominated by crime and violence."

But developers and environmental groups such as CPRE say this revitalisation will require increased public sector investment. Richard Best, director of the Joseph Rowntree Foundation, the independent social policy research organisation, told MPs it would be foolish to expect developers to build on brownfield sites just because land was available.

"People do not want to move to areas where there is high crime, poor schools and ineffective public transport," he said.

Dennis Webb, chief executive of Beazer, Britain's biggest house builder, said: "Some sites are incapable of being redeveloped . . . at a price the public is willing to accept."

The conundrum for government is how to release cash to improve the physical and social fabric of run-down urban areas without breaching self-imposed spending restraints. One proposal being considered by Mr Prescott is to use cash raised by taxing greenfield developments to pay for revitalisation. Some environmentalists have suggested taxing the construction of new homes which are currently exempt from value added tax.

This would cause uproar among builders who would see it as a tax on home ownership. They would find it difficult to pass on the extra cost to people, given that new homes account for only 10 per cent of the market.

The Housebuilders' Federation was concerned that the 60 per cent figure should be regarded as a national target. It said its members were already exceeding the 60 per cent target in cities such as Manchester, in the north-west, and Newcastle upon Tyne, but that it would be impossible to achieve it in some of the counties of southern England.

Even development of brownfield sites can attract opposition from those living close by, said the federation. The CPRE would like to see even more done to inhibit building in sensitive rural areas.

The government, like its Conservative predecessor, risks being squeezed by the conflicting needs of providing sufficient housing, protecting the countryside, encouraging urban regeneration and restraining public spending.

Andrew Taylor
George Parker

Eagle Eye · Louise Kehoe

Return to basics

Demand for cheaper personal computers has forced Intel to change strategy or risk losing market share

Intel demonstrated a new version of its Pentium II microprocessor last week designed specifically for use in personal computers costing less than $1,000 (£600).

Intel's move comes as sales of these "basic PCs", as the chip company calls them, are soaring.

More than 25 per cent of PCs sold in US retail outlets over the Christmas season were in the below $1,000 category. Some were based on older versions of the Pentium chip, but many had something other than Intel inside: chips from Advanced Micro Devices or Citrix, now part of National Semiconductor.

Intel has no intention of letting a big segment of the PC market get away, so the semiconductor industry leader has reluctantly acknowledged the market trend and come up with Covington.

This stripped-down version of the Pentium II is expected to make its debut this summer in PCs from Compaq and others selling for between $700 and $800.

Covington is a quick fix – it lacks the performance-boosting high-speed cache memory that is packaged alongside today's Pentium IIs. But it also marks a significant shift of strategy at Intel.

A year ago, the microprocessor manufacturer was *convinced that "good enough" PCs would never catch on. Bowing to the will of consumers, it now has more than 600 of its best chip designers working feverishly to create new microprocessors for the basic PC market.*

These future products will incorporate as many of the functions of a multimedia PC as possible on a single chip. Later this year we can expect a Pentium II with on-board memory – code named Mendocino. Next will come microprocessors with built-in 3D graphics and audio processing capabilities.

Still, Intel must find ways to tempt the public to buy *more expensive, higher* performance PCs if it is to maintain its stellar financial performance.

No surprise, perhaps, that Craig Barrett, Intel president, still recommends buying the highest performance PC that you can afford. The "basic PC" will become obsolete much faster, he warns.

Mr Barrett is right, of course. A year from now, the $1,000 PC I can buy today will be well out of date. But will today's $2,000 PC be much better?

Microprocessor speed is only one of the important features of a PC. Hard drives, CD-Rom drives, modems and other built-in peripherals are also important and these technologies are now changing even more quickly than Intel's microprocessors.

On balance, it seems to me that buying a $1,000 PC today and replacing it a year from now is going to be a better deal than spending $2,000 for two years' worth of creeping obsolescence.

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In libraries, there are those *of us who spend most of our time leafing through the card catalogue, while others head straight for the shelves and browse through the sections of interest. Then there are those whose aim is to catch the eye of a friendly librarian and seek advice.*

It is just the same on the internet.

Raw searchers are determined to find all relevant documents using Boolean search methods via AltaVista or another "search engine". Directory services such as Yahoo! that provide preselected lists of relevant web sites on a given topic appeal to the shelf browsers. Then there are the automated librarians – called "agents" or "robots" – that can do the job for you.

One website aimed at meeting all of these needs is OneSeek (*www.oneseek.com*). It submits search terms to three different search systems – Yahoo!, AltaVista and Netbot – simultaneously. At the least it will help you decide which approach you prefer.

Another OneSeek service, called Webchain, gives a glimpse of what the future may hold in web searching.

Users can choose a category, such as technology news, and automatically surf between as many as a dozen of the most popular websites in the field.

This hands-off approach is more akin to scanning a newsstand. You see the title of the publication and the top headlines and may stop your search to read more whenever you see something that catches your eye.

It is an interesting alternative to the "aggregation" of information from various sources – reliable or otherwise – that is in vogue at the moment on the internet. The "auto surf" approach could be a winner because it fits more naturally into the reading habits of subscribers to traditional media.

Intel now has more than 600 of its best chip designers working feverishly to create new microprocessors

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Silicon Valley is best known for its high-tech products, but over the years it has also exported many management mantras.

The latest is: "Corporate politics is the enemy of technological progress". Watch for this credo to make its way eastward across the US and beyond. Among Silicon Valley start-up companies, the principle is already well entrenched.

Corporate politics typically revolves around *the efforts of individuals to* maintain a power base. It creates barriers to innovation and to the adoption of new technology, many believe.

Perhaps it is just human nature. New technology upsets the status quo. It creates new ways to do business, enables open communications and provides broad access to information. Sometimes it undermines the business propositions on which a company is based. Often it threatens new competition.

Coming to terms with new technology won't get easier. On the horizon are "knowledge management" systems designed to extract and re-use the expertise of specialists on a corporate staff.

Yet who among these experts will be willing to have his or her brains "tapped" for use by their successors?

Share your views in the Eagle Eye discussion group on the FT web site (www.FT.com) or contact Louise Kehoe by e-mail on louise@FT.com

Computer simulation · Michael Kenward

A model of efficiency

Computer controls are cutting costs in process industries

Running a chemical plant at a higher pressure or with the temperature turned up can do wonders for output. But go too far and the whole thing just might explode.

One way to find the optimum operating level is through trial and error. A less risky alternative is to simulate the operation of the chemical plant in a computer. If a human operator does something silly, a computer model will tell them off. The only damage is to their self-esteem.

The same computer models that simulate the operation of complex processing plants can also help in their design and in the control of their operation. Aspen Technology, the US process software company, has become the leader in the growing market for process modelling software. It has achieved this by its ability to capture the working of a plant in computer models.

It can take thousands of mathematical equations to describe all the chemical and physical processes that go on in a complex processing plant. AspenTech's strength has been in capturing this *mass of detail in software – effectively a computer model of the plant. The software then enables computers to carry out complex calculations to improve the plant's design and operation.*

Set up in 1981, AspenTech (www.aspentech.com) supplies software and services to the process sector. Based in Cambridge, Massachusetts, the company grew out of a US government-funded research project set up in response to the energy crisis of the 1970s.

A team of researchers at the Massachusetts Institute of Technology set out to develop ways of describing in software the complex chemical reactions that happen in refineries and other processing plants.

The aim was to create software tools to design the synthetic fuel plants that were expected to replace conventional oil refineries. But the approach turns out to have wide-ranging applications, from power stations to refineries and even food processing plants.

A computerised model of a plant can replace the notebooks full of rules and experience that people rely on for manual control operations. Models are more efficient than humans, because the software can assess many *more variations and operating conditions.*

While this may seem to be a step towards eliminating operator skills, it could have the opposite effect. Ideally a model should adjust its behaviour in response to market conditions – to changing demand for particular products, for example. Relieved of the need to deal with minute-by-minute operations, the plant's operators can become a part of the company's wider management process.

The growing availability of inexpensive computer power has opened the way for computer control of process plants. Sensors can collect information on the state of the various stages in the plant, feeding data to the software models. These can work online to optimise the plant's performance.

Adding modern control systems can bring the benefits of computer control to even the oldest of plants.

"Many of today's plants were originally designed with slide rules," says Larry Evans, AspenTech's chairman and chief executive. "They have not had the benefit of today's technology."

Dr Evans estimates that process industries – oil refineries, chemical plants, papermakers, glass manufactures, food processors and so on – *with a combined turnover in excess of $6,000bn (£3,600bn) – could save between 15 per cent and 20 per cent of their production costs. DuPont, the US chemicals company, has estimated that it could save between $5bn and $8bn a year by bringing the operation of its processing plants up to the* industry's best practice.

Richard Schmotzer, a principal consultant with BP Oil based in Cleveland, Ohio, says advanced control and automation could increase the profits from every barrel processed by between 10 and 20 cents.

That is just the beginning. Full implementation of "model centric" process control and business management might achieve as much as 50 cents more profit per barrel of feedstock that goes through the company's refineries. "There is a significant amount of money available with this technology," he *explains.*

Hoechst, the German chemicals company, also has an alliance with AspenTech.

Horst Glich of Hoechst says the company is convinced of the value of the model-based approach to plant operation.

Hoechst has combined software work and laboratory experiments to develop models of a ketene plant, a standard part of many chemicals complexes.

This resulted in a 5 per cent increase in the plant's capacity, says Dr Glich. Hoechst is transferring the technology to a plant in India and estimates that it will take less than a year to recover the cost of the work.

AspenTech has started to integrate its various software packages. It is also connecting process control systems to a plant operator's information management systems. Dr Evans describes the combined approach as "plantelligence". The idea is to produce what is, in effect, the process plant equivalent of the office suite of desk-top computing.

Information Technology
The FT's review of Information Technology appears on the first Wednesday of each month

Millennium Watch · Ian Hugo

Delay, don't prohibit

A moratorium on new IT projects would be impractical but postponements will be needed

Should companies impose a moratorium on new IT projects until their millennium problems are solved, as some leading US computer consultants have urged (Put New Projects on Ice, February 11)?

The proposal is interesting but totally impractical. It simply is not possible to prohibit IT development in order to force resources into Year 2000 work. However, the idea does have aspects that are worth exploring.

First, much IT development is already being postponed or cancelled. The extent is not easy to gauge but there are some pointers. Last year, the Royal Bank of Scotland admitted to delaying 15 per cent of new IT development work and a survey by Gatton Consulting found 25-50 per cent of new projects being postponed or scrapped. We can reasonably add two assumptions: that the Royal Bank's admission was diplomatically on the low side and that more planned projects will be postponed as the heat increases in Year 2000 kitchens.

This has obvious implications for company business plans but the most serious effects may be for some of the smaller software development tool vendors. Their market is being postponed for two years and those with shallower pockets may not last that long. In the US, some have already gone under, blaming Year 2000. So much for the issue being a bonanza for the whole IT industry.

Second, new projects will not be the only casualties. Both Reuters and Citibank plan to scrap around 10 per cent of existing product lines, albeit the less important ones, to reduce the Year 2000 burden.

It is safe to assume that they will not be the only companies doing this and also that their public admissions may be diplomatically on the low side; as the heat rises in the kitchen, so the menu gets smaller too.

On the boil: the heat is rising in the Year 2000 kitchen

Third, the most interesting implications become apparent if we relate these private sector phenomena to the public sector. There is no reason to suppose that the public sector will suffer any less pain than the private sector; exactly the contrary, in fact, for reasons of budget and public sector practices more generally.

So the question is this: what are the implications for public services of scrapping 10 per cent of "product lines" and delaying, say, 25 per cent of new development? It is not a question that governments will be in a hurry to answer but they should at least be asked it.

In fact, the answer regarding delays can already be glimpsed in the UK. Industries ranging from electricity supply to financial services are struggling to cope with new legislation that requires big changes to their IT, and delays and missed deadlines are already occurring. How much new legislation can anyone seriously expect to be implemented in the next two years?

Finally, rather than merely describing this mess we ought to come up with some proposals.

So, here are mine, although they will require a degree of realism and understanding that most governments have not so far shown.

First, with respect to the percentage of "product lines" to be scrapped, it will be far preferable to have governments acknowledge this need in the public sector in advance and plan some constraints on services rather than leave the outcome to chance. Companies such as Reuters and Citibank are minimising the impact of this surgery by acknowledging the need early.

In the public sector, similar radical prioritisation will have to come by government prescription; it will not be popular but it will be better than leaving to chance which public services survive.

Second, with respect to delay of new developments, there is an obvious wider role that governments can play. They can elect to delay all inessential legislation requiring IT support, in public or private sector organisations, until the burden of Year 2000 work (and perhaps introduction of the euro too) has been successfully overcome. Again, radical prioritisation will be needed if the kind of unwanted ripple effects from missed deadlines we are already seeing are not to recur on a much wider scale.

These proposals are practicable and would undoubtedly help. The question is: do governments have the nerve and the will?

Ian Hugo is editor of Millennium Watch, a regular briefing on Year 2000 sponsored by the UK's Taskforce 2000.

Television/Christopher Dunkley

Men – the new underclass

For 25 years, this column has maintained that the naive argument which brackets together television advertising and violence ("If TV sells detergent it must sell violence too") is a nonsense. Nearly everybody needs and wants detergent. What matters is the predisposition of the viewer, and also the intent of the advertiser. McDonald's can advertise all it likes but it will not sell many hamburgers to vegetarians. Spend as much as you want on commercials for Carlsberg lager, you will still find that you sell to beer lovers, not teetotallers. TV campaigner Mary Whitehouse argues that all this sex and violence drives viewers into copycat behaviour, yet the more she watches the less likely she is to copy it. Commercials or programmes, the same rule applies: the intent of the broadcaster and the predisposition of the viewer are paramount.

But where does that leave us with what was once called the battle of the sexes, and is now called feminism? Judging from what is seen in the UK, American broadcasters moved on some years ago into a post-feminist world where the old shrill activism is tempered by humour. But in British broadcasting the feminist credo now has the same sort of standing as the the Koran in an Islamic state. You simply would not be allowed to make the American sitcom *Married with Children* in Britain, even though it is shown here (always out of peak hours). British television drama, documentaries, and even children's programmes routinely treat males – but only males – with ridicule and contempt. In soap operas and situation comedies, women are not just portrayed as the equals of men in areas where men were once seen, rightly or wrongly, as superior (practical mechanics, sheer physical strength); women are constantly portrayed as morally, emotionally and cerebrally superior.

The reason for this will be for historians and sociologists to say. They may conclude that, apart from American university teachers, no professional group took to feminism with as much passion as broadcasters, of both sexes. Some of the keenest feminists in British television are male. Personal observation, and the experience of friends, suggest that in this matter broadcasters are not representative of the British population as a whole. Notions considered by those within broadcasting to be self-evident truths (it is better for a woman to go out to work than stay at home and look after children, women should serve alongside men in warships, it is as natural for women as for men to become boxers) are not seen in anything like the same light by many members of the viewing public.

Some agree, of course, but most seem to feel that while the pre-1960 world of men and women needed changing, none of us needs the tediously repetitive denigration of men and masculinity, and the reversal of sexual stereotypes, which now permeates so much television. Last night saw the start of a six-part BBC2 series called *How Do You Want Me?* Billed as a comedy, it is difficult to imagine anyone sitting in front of it and laughing very much. Newly married Ian and Lisa moved to the village occupied by her family, and Ian proves to be stupid, incompetent, and tactless. At a dinner with all the village worthies, including her family, he gets drunk and tells a ludicrously filthy story. Men, eh? His partner, contrastingly, is bright, charming, diplomatic and altogether wonderful, which hardly needs saying since she is, of course, a woman. This series is written by Simon Nye who also wrote *Men Behaving Badly*, which gets its laughs from depicting men as total incompetents in all departments: in bed, in the office, in the kitchen, everywhere. It may be significant that while this has been a big ratings success in Britain, the special version made for the US bombed, and a second series has not been commissioned. Perhaps the undiluted ridicule of men which is *de rigueur* in Britain is no longer acceptable in the US.

Sunday brought the first of a two-part drama called *Heaven On Earth* in which a trendy London couple find their life falling apart. They move, lock, stock and barrel to the primitive religious community in Wales from which the wife originates, and guess which of them promptly starts getting all silly and emotional and succumbing to religious extremism? The man, naturally, while the woman remains level headed, practical, and in all respects admirable.

Last week in the same slot on the same channel (BBC1) in a drama called *Our Boy*, the child of the family was was killed by a hit-and-run driver. And which parent went to pieces, weeping and wailing and being utterly overcome by emotion? Naturally the man, the big, butch West Ham supporter. No doubt the writer realised that if he had given the tearful role to the mother he would have had the script thrown back with instructions not to be such an old fashioned male chauvinist pig.

Across the full front of broadcasting, it hardly matters where you look; feminist revisionism is everywhere. Tomorrow sees the start of another new drama serial (BBC1 again) to which the cover of the current Radio Times is devoted. "Real Women" says the huge headline, and below that, "BBC1's famous five on female friendship in the nineties". It is inconceivable that such a cover could be devoted to "Real Men" today unless the intention was sarcasm. Last week's cover showed the cast of *Red Dwarf*: Rimmer, the cowardly prat, Lister the sex-mad slob, Cat the fashion-mad idiot, with only Kryten having any admirable human qualities – loyalty, compassion, affection. He is a robot, of course.

There are plenty of gleaming role models around: the paragon at the centre of *The Ambassador* who has the mind of Sherlock Holmes and the skills of a diplomat; the coroner in *Mortimer's Law* who combines the talents of academic genius and ministering angel; the fatter half of the partnership in *Jonathan Creek* who is strong, confident and brave while Creek himself is a fey and wimpish hypochondriac. These prodigies are played by Pauline Collins, Amanda Root and Caroline Quentin. No matter what channel you choose (try *Dressing For Breakfast* on Channel 4 or *Game On* on BBC2) you will find men portrayed as pitiful emotional cripples, sexually inept, and hopelessly impractical.

But does it matter? Surely this is merely a righting of the balance? Even if this threadbare feminist assertion were true (which it is not; as well as mother-in-law jokes there were always vicar jokes, salesman jokes and at least as many anti-man as anti-woman jokes) it would be pathetic to argue that male sexist rubbish is wrong but female sexist rubbish right. The real worry is the one with which we began. What is the intent of the broadcasters? Some sort of emasculation seems to be the answer. And the predisposition of the viewers? Very mixed, with many older men irritated but seemingly resigned; younger men often deeply uncertain; and women running the gamut from vengeful triumphalism to thoughtful anxiety.

It is the slavish uniformity of this simple-minded revisionism in British broadcasting which is so destructive of good television.

Pause for thought in an Irish country pub: scene from 'The Weir', a beautifully crafted, compassionate play by Conor McPherson

Alastair Muir

Theatre/Sarah Hemming

Haunted by love, loss and loneliness

Compared with many of the recent successes at the Royal Court Theatre, *The Weir* by Conor McPherson is pretty short on incident. It takes place in real time and consists of a small group of people talking the night away. Yet it is far more dramatic than many a new play, partly because it takes one so skilfully through the process of catharsis.

It is a beautifully crafted and compassionate piece, dealing with love, loss and loneliness. It works because one believes so intensely in the characters that one shares the experiences they talk of, because it contains at its heart a shattering event and because it demonstrates the healing potential of storytelling.

The play is set in a small, run-down pub in a remote part of Ireland. Here a few locals gather to drive away the lonely evening. There's Jack, the old fellow with the garage who lives by himself; there's Jim, the odd-job man who lives with his ageing mother; and there's Brendan, the big, shy barman who has never plucked up the courage to marry. Their average evening of banter and small talk is interrupted by the arrival of Finbar, a local who has gone up in the world by moving down to the town, and his guest Valerie, a newcomer to the area. McPherson stirs up plenty of comedy from the impact of the young woman on this gaggle of lonely men, as they try to outdo one another in drink-buying, joke-telling and yarn-spinning. There is a wonderful moment when Valerie asks for a glass of white wine and the men don't know where to put their faces.

There may be slight echoes of *Playboy of the Western World* in the situation, but McPherson takes the play in his own direction. The men start telling spooky tales, each one worse than the last; but just as they think they have gone too far, Valerie decides to tell her own ghost story. It would be unfair to disclose what it contains – let us just say it deals with the worst kind of loss. Suddenly, you are plunged into raw tragedy and find yourself aching, with the characters on stage, to heal the desolate grief of this young woman who is genuinely haunted.

If listening to Valerie's story is agony, it is necessary to go through it to experience the recovery afterwards, as the men's decent humanity wraps round her like a blanket. Sitting by the stove, Jack recalls the small act of kindness that rescued him from the doldrums of his life-changing catastrophe. It is in such details that the play asserts the value of empathy, while reflecting on the role of storytelling to shape and make sense of experience.

It is served by an outstanding cast and a sympathetic and perfectly paced production by Ian Rickson. Transferring to the Duke of York's from the smaller theatre where it was first shown, Rickson opens the play out across the stage, shaping the tension, swooping from comedy to tragedy, and dealing wonderfully with the play's great variety of pauses – expectant, awkward, resentful, sympathetic.

The cast give fine, understated performances that respect their characters' dignity while exploiting their comic potential. We enjoy Jim Norton as the wily old Jack, Kieran Ahern as the gauche Jim, and Des McAleer as the slightly swaggering Finbar. Brendan Coyle manages to hunch over the bar in a dozen eloquent ways, and Julia Ford is excellent as Valerie, telling her chilling story as if it were indeed being torn out of her that moment. While she speaks, the rest of the cast sit still as stone, as, indeed, does the audience: a rare tribute to a fine piece of writing.

Royal Court Downstairs, Duke of York's, London WC2 to March 28 (0171 565 5000).

Opera/David Murray

Giordano unmasked

The Royal Opera performed Umberto Giordano's *Andrea Chénier* – romantic melodrama amid the French Revolution – in concert at the Royal Festival Hall on Monday (repeated this Friday). Good thinking: to make *Andrea Chénier* even look like a decent opera on stage is an expensive waste of time, whereas if the latest terrific young tenor, José Cura, is to hand they can sell out the Royal Festival Hall twice and reduce their deficit.

Or, as their chief executive Mary Allen writes in the programme-book: "During the current two seasons outside Covent Garden, we look forward to exploring new territory and repertory, so as to arrive refreshed for the reopening of our reborn theatre at the end of the century." The takings from Cura's *Chénier* ought to help with that.

The Cura sound is terrific: large, lustrous, true-pitched and slightly baritonal, like his mentor Placido Domingo's, and yet free and ringingly forceful at the top. Unlike Domingo, he is still learning how to let the words guide the expressive sense of his music, which was after all standard composers' practice in the 19th century. Though Giordano never found the hang of it! – which is why a super-tenor like Cura is well advised to let valour get the better part of prudence in his Chénier.

Most people sometimes enjoy just listening to impressive voices, and there are many who regularly lust after such experiences: opera-as-we-know-it wouldn't exist without that wider audience. The little army of cultivated Mozart- and Wagner-lovers would never suffice to keep the whole machine going. On the other hand, they are also the ones who will not be content with "opera" reduced to concert-performances, and the occasional staging of very popular pieces in dicey venues like the Albert Hall.

This week's *Chénier* offers not only Cura, but Maria Guleghina as his adored Maddalena and Anthony Michaels-Moore as the Danton-esque Gérard. The timbre of Guleghina's ample soprano is deep and limpid, yet suggestively veiled – and untroubled by any concern to make much of her words. (Often she was momentarily vague about pitch, though usually she homed swiftly into the right one.) Some day soon, she will find a role that wants exactly her enticing qualities; Maddalena is not quite it.

Michaels-Moore has the right cold-blooded fervour for Gérard, if not the throat-grabbing openness to make the stiff declamations that Giordano gave him humanly affecting. By sheer grip, he scored with "Nemico della patria" in Act 3. Jason Howard sang a robustly attractive Roucher; Robin Leggate, John Dobson and Anne-Marie Owens did everything possible for their lesser roles.

One sympathised with Fiona Kimm, whose short-lived but lively Act 1 part as the Countess needs desperately to be filled out on stage, Giordano's music for her being so meagre. But that represents the basic problem with Giordano: except in the narrowest, most literal sense, he was hardly a "composer" at all. He was a keen, intelligent would-be composer (his parents tried to discourage him, rightly, and 20 years before his death he gave up composing altogether) who learned how to do the sort of thing his better contemporaries did at similar junctures, and produced lifeless versions of it. Moderately skilful imitations of "local colour", too; but never acutely expressive vocal lines, nor even good tunes.

Honest plagiarism would probably have been better. Giordano's one great knack was for devising routinely passionate rhetoric (slow and loud, with *tremolo*-block-chord accompaniments) in the best registers of the various voice-types. It flatters the right singers tremendously, and the pleasure it gives them is often infectious. Beyond that – well, nothing much.

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Die Walküre: by Wagner. New production conducted by Hartmut Haenchen in a staging by Pierre Audi; Feb 25

■ BELFAST

OPERA
Opera Northern Ireland, Grand Opera House
Tel: 44-1232-241919
Hansel and Gretel: by Humperdinck. Conducted by Graham Jackson in a staging by Aidan Lang, with designs by Les Brotherston; Mar 1

■ BERLIN

CONCERTS
Philharmonie
Tel: 49-30-2548 8354
Berlin Philharmonic Orchestra: conducted by Claudio Abbado in works by Beethoven and Mahler. With soloists including Alfred Brendel and Anne-Sofie von Otter; Feb 28; Mar 1

OPERA
Staatsoper unter den Linden
Tel: 49-30-2035 4555
www.staatsoper-berlin.org
Falstaff: by Verdi. New production conducted by Claudio Abbado in a staging by Jonathan Miller. Ruggero Raimondi sings the title role; Feb 27; Mar 2

■ BOLOGNA

OPERA
Teatro Comunale
Tel: 39-51-529 999
www.nettuno.it/bo/teatrocomunale
Il Campiello: by Wolf-Ferrari. New production conducted by Bruno Bartoletti in a staging by Nanni Garella, with designs by Antonio Fiorentino; Feb 26, 28; Mar 1

■ BOSTON

EXHIBITIONS
Museum of Fine Arts, Boston
Tel: 1-617-267 9300
A Grand Design: The Art of the Victoria and Albert Museum. North American tour of selected objects from the V&A's collection. Consists of 250 works of art ranging from Leonardo da Vinci's notebooks to shoes by Vivienne Westwood; from today until May 17

■ BRUSSELS

OPERA
La Monnaie
Tel: 32-2-229 1211
Duke Bluebeard's Castle: new production of Bartók's one-act opera, conducted by Lothar Zagrosek. Staging by Anne Teresa de Keersmaeker, who is also choreographer of Quatuor Nr. 4, which completes the programme. The sets for Bluebeard are by Gisbert Jäkel, with costumes by Rudi Sabounghi; Feb 25, 26, 27, 28; Mar 1

■ CHICAGO

CONCERTS
Orchestra Hall
Tel: 1-312-294-3000
www.chicagosymphony.org
Chicago Symphony Orchestra: conducted by Zubin Mehta in works by Crumb and Bruckner; Feb 26, 27, 28

■ EDINBURGH

OPERA
Edinburgh Festival Theatre
Tel: 44-131-529 6000
Scottish Opera: Cosi fan tutte, by Mozart. New production by Stewart Laing, conducted by Nicholas McGegan; Feb 26

■ HELSINKI

OPERA
Finnish National Opera
Tel: 358-9-4030 2211
The Magic Flute: by Mozart. New production by Swedish director Etienne Glaser, conducted by Okko Kamu; Feb 27; Mar 2

■ LISBON

OPERA
100 Days Festival, Expo '98
Kirov Opera: Betrothal in a Monastery, by Prokofiev; Main Auditorium, Centro Cultural de Belém; Feb 25

■ LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
London Symphony Orchestra: Mstislav Rostropovich conducts a programme of works by Shostakovich; Feb 26; Mar 1

EXHIBITIONS
National Gallery
Tel: 44-171-839 3321
Anthony Caro at the National Gallery: Working after the Masters. Display of recent sculptures which take their inspiration from painters including Mantegna and Rembrandt; from today until May 4

OPERA
English National Opera, London Coliseum
Tel: 44-171-632 8300
● The Elixir of Love: by Donizetti. New production, directed by Jude Kelly and designed by Robert Jones. The conductor is Michael Lloyd; Feb 25, 27
● The Tales of Hoffman: by Offenbach. New production by Graham Vick, designed by Tobias Hoheisel and conducted by Paul Daniel/William Lacey. Cast includes John Tomlinson; Feb 26; Mar 2
● Xerxes: by Handel. Conducted by Noel Davies in Nicholas Hytner's production, revived by Emma Jenkins; Feb 28

■ LOS ANGELES

OPERA
L. A. Opera, Dorothy Chandler Pavilion
Tel: 1-213-972 8001
www.laopera.org
The Magic Flute: by Mozart. Revival conducted by Julius Rudel in a staging by Sir Peter Hall; Feb 26; Mar 1

■ MANCHESTER

CONCERTS
Bridgewater Hall
Tel: 44-161-907 9000
BBC Philharmonic: conducted by Sir Charles Mackerras in an all-Janáček programme including his Glagolitic Mass; Feb 28

■ MUNICH

OPERA
Bayerische Staatsoper
Tel: 49-89-2185 1920
The Midsummer Marriage: by Michael Tippett. Munich premiere. Mark Elder conducts a production staged by Richard Jones, with a cast including Alison Hagley and Philip Langridge; Feb 25, 28

■ NEW YORK

CONCERTS
Carnegie Hall
Tel: 1-212-247
www.carnegiehall.org
Sibelius Academy Symphony Orchestra: conducted by Esa-Pekka Salonen in works by Beethoven, Sibelius and Stravinsky; Feb 25

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
Samson et Dalila: by Saint-Saëns. New production by Elijah Moshinsky, with designs by Richard Hudson; Feb 25, 28

■ PARIS

CONCERTS
Salle Pleyel
Tel: 33-1-4561 6589
Orchestre de Paris: conducted by Leif Segerstam in works by Segerstam and Sibelius. With violin soloist Gidon Kremer; Feb 25, 26

OPERA
Opéra National de Paris, Opéra Bastille
Tel: 33-1-4473 1300
Tristan und Isolde: by Wagner. New production conducted by James Conlon in a staging by Stein Winge, with designs by Lennart Mörk. Cast includes Wolfgang Schmidt and Sabine Hass; Feb 27

■ ROME

OPERA
Teatro dell' Opera
Tel: 39-6-481601
www.themix.it
La Favorite: by Donizetti. New production by Beni Montresor, conducted by Frederic Chaslin; Feb 25, 26, 28; Mar 1

■ SAN FRANCISCO

CONCERTS
Davies Symphony Hall
Tel: 1-415-864 6000
www.sfsymphony.org
San Francisco Symphony Orchestra: conducted by Michael Tilson Thomas in Stravinsky's The Firebird. Programme also includes works by Takemitsu and Copland's Clarinet Concerto, with soloist Richard Stoltzman; Feb 25, 26, 27, 28

■ TV AND RADIO

● WORLD SERVICE
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● CNN International
Monday to Friday, GMT:

06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

Edward Mortimer

Re-thinking Iraq

The west must treat the Iraqi people as allies, not pawns, in its struggle to unseat Saddam

Writing columns can get you into strange company. After my criticism of Anglo-American war plans in Iraq I got an invitation to address an anti-war rally outside the House of Commons, and a discreet enquiry from the French embassy, which wanted to know whether my misgivings about the proposed bombing were shared within the British cabinet.

On the other hand, my argument that the west should be helping the Iraqi opposition to get rid of Saddam Hussein puts me shoulder to shoulder with some of the most hawkish and pro-Israeli public figures in the US – people such as Richard Perle, the Pentagon's "prince of darkness" in the Reagan era, and Martin Peretz, publisher of the ultra-Zionist New Republic magazine.

They are among the signatories of a manifesto sent to Bill Clinton, the US president, last week by the "Committee for Peace and Security in the Gulf". This calls on the US to:

- Recognise a provisional government "based on the principles and leaders of the Iraqi National Congress".
- "Restore and enhance the safe haven in northern Iraq" and "establish a zone in southern Iraq from which Saddam's ground forces would also be excluded".
- Lift sanctions in these areas.
- Release frozen Iraqi assets ($1.6bn in the US and UK alone) to the provisional government "to fund its insurrection", as long as it "continues to promote a democratic Iraq".
- Facilitate broadcasts from US transmitters and establish a "Radio Free Iraq".
- Assist the provisional government's offensive against Saddam "logistically and through other means".
- Bring a war crimes indictment against Saddam and his lieutenants.
- Launch an air campaign against "the pillars of his power" – Republican Guard divisions and military infrastructure.
- "Position US ground force equipment in the region so that, as a last resort, we have the capacity to protect and assist the anti-Saddam forces".

That programme is certainly more like a strategy than what we have now. But is it realistic?

It puts a great deal of weight on the Iraqi National Congress. This was, when it was formed in 1992, an impressively broad-based coalition of Kurdish and Arab opposition parties. But in many people's eyes it is now discredited. The Kurdish parties have been fighting each other for most of the past four years. Many of the Arab groups have withdrawn their support for the INC, angry or jealous at the dominant role of its leader, Ahmad Chalabi, against whom old accusations relating to his banking career in Jordan during the 1980s are constantly brought up.

The INC lost its radio and TV transmitter, and had many of its rank and file troops caught and executed, when one of the Kurdish leaders, Massoud Barzani, invited Mr Saddam's troops to help him fight his rival Jalal Talabani in August 1996. The CIA then withdrew its half-hearted support for the INC, which has languished in exile since.

Yet Mr Chalabi insists that his organisation is intact, and says he can put 3,000 fighters back on the ground in northern Iraq as soon as he gets guarantees of western support. They would then act as a nucleus for a new insurrection, attracting more defectors from the Iraqi army and gradually expanding the "safe haven", as long as it continues to be protected by western air cover.

Are such bellicose ideas still relevant, now that Kofi Annan has defused the immediate crisis over weapons inspections? Almost certainly yes, since the nature of the regime has not changed. But the political aspects of the programme must come first. Before any new military action is contemplated the battle lines must be redrawn, so it is clear that the action is aimed at helping the Iraqi people, not punishing them.

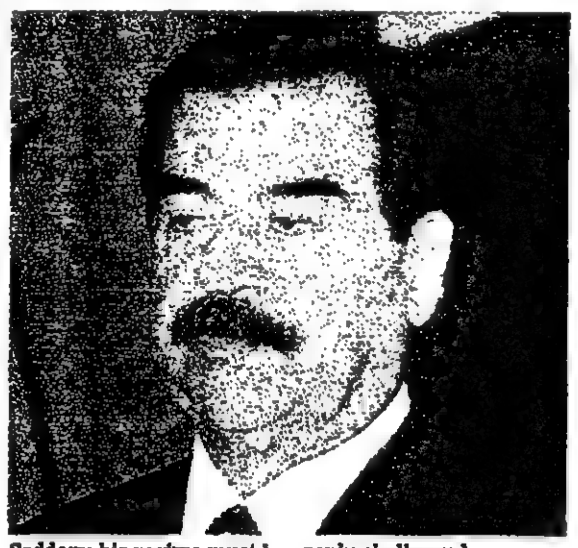
And that means the punitive sanctions must be ended. However true it is that these sanctions are not directly responsible for the malnutrition and inadequate medical facilities so widely reported in Iraq – since food and medical supplies have never been embargoed, and Mr Saddam has plenty of money to spend on new palaces – it is also true that he has been able to exploit them to put himself in the right and the west in the wrong.

The new "oil-for-food" resolution should in any case have the effect of ending the purely punitive aspect of sanctions, since it authorises Iraq to sell more oil than it is currently able to produce. So the argument should shift to the way the proceeds are spent, with the UN trying to ensure that they are used for humanitarian purposes while the regime seeks to appropriate them for purchasing or manufacturing weapons and for other aims of its own.

At the same time the legitimacy of Mr Saddam's regime must be openly challenged, by a process separate from the sanctions and the weapons control regime. This should take the form of an indictment for war crimes and crimes against humanity, based on the grim series of reports on human rights violations in Iraq submitted to the UN general assembly by its special rapporteur, Max van der Stoel.

By delegitimising Mr Saddam, the international community can legitimise support for an alternative government, and so rebut the charge that it is seeking to break up Iraq or to victimise the Iraqi people. That makes more sense, in both strategic and humanitarian terms, than leaving Iraq to the triple agony of continued oppression by Mr Saddam, indefinite sanctions and periodic bombing.

Edward.Mortimer@FT.com



Saddam: his regime must be openly challenged

LETTERS TO THE EDITOR

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Brussels should take note of IMF stance on Kenya aid

From Mr Graham Watson MEP.

Sir, The International Monetary Fund's decision to rule out an early resumption of a suspended loan agreement with Kenya is one which should be welcomed from an institution which is often less than discerning in its provision of financial aid ("IMF rules out early loan agreement with Nairobi", February 19).

The fund's tough stance is recognition that the self-proclaimed professor of politics, Daniel arap Moi, has presided over years of national decline attributable to endemic graft and corruption in the ruling Kanu elite.

However, it should be observed that it was left to a financial institution to take the political and ethical lead where the European Union, another leading donor body, failed to act swiftly. Several months after the IMF's decision, the Commission announced the suspension of a package worth Ecu84m to Kenya destined for prestige projects such as the Nairobi/Mombasa highway.

Following his re-election, President Moi appears to be more preoccupied with his succession struggle than seriously tackling corruption in his ranks. The IMF concludes it is in its best interest not to reinstate aid. The European Commission, please take note.

Graham Watson,
The European Parliament,
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At the vanguard of party reform

From Mr John Gummer MP.

Sir, Philip Stephens is wrong to suggest that pro-European Conservatives have been sidelined in the party ("Irrelevant Tories", February 23). Not only is the Conservative Group for Europe one of the party's largest (and growing) single issue organisations successfully campaigning for a positive vision of Britain's role at the heart of Europe; we are campaigning with the leadership, very much at the heart of the debate.

The argument about whether we are pro- or anti-European is history. We are a pro-European party. As William Hague told the Confederation of British Industry conference in November: "Let us not have debates about who is pro- or anti-European. We should all be pro-European. Pro about a Europe that is flexible, not rigid; that is about diversity not uniformity; that is outward-looking, and does not turn itself into a fortress."

Being modern is about being pro-European, as Mr Hague has recognised. Young people and the business community know that their interests are not just British, but European. When they sell to Germany, France or Italy (more than 60 per cent of our trade is with our European partners) they are making a success of their own enterprise and the single European market – itself born from a British idea. Enlargement of the Union, too, is a fundamentally good Conservative policy.

As modern Conservatives, we are at the vanguard of the reform and renewal process within the party, urging the continuation of a positive policy towards EU membership and a development of our relations with our partners on the Continent. So there is no need to be defensive. We are in Europe to make a success of our own enterprise and to spread the same economic and political freedoms across the world. All Conservatives can share our platform.

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Ingredients hard to find in Indonesia

From Mr Patrick Wye.

Sir, Christopher Wood (Letters, February 13), taking issue with Lex's view (February 12) of Hong Kong in 1983, says he was in Hong Kong at that time. It is clear from his suggested solution for Indonesia that he is not in that country today!

Indonesia has a proliferation of under-capitalised and under-managed banks, its legal and accounting standards are in no way comparable with those of Hong Kong, and there is not the political integrity and discipline – elements so essential to the success of Hong Kong's currency board.

A managed exchange rate must depend on an independent currency board beyond and above political and nepotistic pressures – ingredients that will be hard to find in Jakarta!

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No further

From Mr Matt King.

Sir, United Nations secretary general Kofi Annan's description of his success in Baghdad – "you can do a lot with diplomacy, but of course you can do a lot more with diplomacy backed up by firmness and force" – is reminiscent of words attributed to another, less praiseworthy, individual, one Al Capone: "A man can go a lot further with a kind word and a gun than with a kind word alone". One hopes that Mr Annan's borrowing goes no further than the dictionary of quotations.

Matt King,
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Don't play with music

From Mr Angus Young.

Sir, The article "Country star enters fresh constellation" (February 16) concerning country music outside the US highlights concerns among foreign fans. The key theme is the remixing of the original for the foreign market. In my view, if I buy an album, I would like that album to be as originally intended by the artist, not a mix of what the producer believes I want to hear. For example, country music singer Deana Carter released "Did I Shave my Legs for This?" in 1996 in the UK, then at the end of 1997 released the US original with the same title – it overlapped three songs between the albums. This could be seen as a manipulative way of encouraging true fans to pay inflated import prices to get an album they originally wanted but could not until the record company decides. This should be stopped.

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First in, first out?

Thailand is tackling its crisis by focusing on structural reform, says Ted Bardacke

The vicious circle engulfing Thailand for the past year has finally been broken.

Two recent events signal that the crisis has passed. First, the baht has stabilised – trading now between Bt44 and Bt47 to the US dollar. This is below the Bt25 level when the currency was devalued last July but above its worst-ever point of Bt58 three weeks ago.

Second, yesterday's revised agreement with the International Monetary Fund (IMF) focuses less on containing the economy's fall and more on structural reform. Thai policymakers are now even talking about paying for the bail-out of the financial system with a return to international capital markets.

The reason for this bottoming out is simple and, for other Asian countries struggling to extricate themselves from the turbulence unleashed by the baht's precipitous fall, instructive.

Confidence has been restored. Not confidence in the economy, which is likely to contract at least 3 per cent this year. Rather, confidence is building up in the ability of the government, now three months old, to manage the economy in a way that re-establishes conditions for growth later.

"A couple of weeks ago we were all competing to see who could come up with the worst scenario for Thailand," says a leading securities analyst. Now, he says, with the government proving to be an assiduous student of the IMF, "we're competing to see who can come up with the best plausible scenario".

That "best plausible" does not yet include a virtuous circle of recovery, higher investment and faster growth.

"We've turned the corner based on expectations that the problems will be solved," says one senior international official. "But they haven't been solved. The government still has to actually follow through."

"What has happened in the markets has in no way made the government think the job is easier or shorter," says Abhisit Vejjajiva, a minister attached to the prime minister's office. "We have no illusions. We still need to reform and restructure."

Tarrin Nimmanahaeminda, the finance minister, says real recovery will not be under way until interest rates can be lowered. They now stand at 20 per cent, compared with an inflation rate of about 10 per cent. Before that can happen, four major problems need to be tackled. Each carries its own pitfalls.

First, the financial system has to be recapitalised and the private sector debt problem addressed. Unlike in Indonesia, the problem in Thailand is not foreign debt (for the most part that is being rolled over). Rather, the issue is domestic debt. Thai banks cannot start lending to exporters until bank balance sheets are cleaned up.

To help do that, the government has lent money to troubled banks and nationalised six of those which are unable to raise capital to repay the loans. This is pushing some of the clean-up bill on to taxpayers but the risk is that the cost of the operation, potentially as high as $22bn, would hinder growth for years if the government is forced to take over the larger banks.

Second, the government has to make good on its promise to dispose of the $19bn in assets of the 56 finance companies which were shut down last year. Their disposal is crucial to re-establishing Thailand's credibility with foreign creditors and for clearing out part of the bad debts lurking in the financial system.

So far the disposal process has been one step forward and one back. The authorities may have made life harder for themselves by setting minimum "fair" prices for the assets, and pledging government money to protect them. This may create unrealistically high prices, not only for these particular assets but for others that will need to be sold.

Third, the government needs to open more of the economy to foreigners. This is needed to encourage competition throughout the economy but it would also help boost asset prices if foreigners were able to bid more easily, particularly for property, the main asset being sold. But the government seems to have decided against encouraging foreigners to take part in the sales. It has reportedly shelved plans to increase the number of years foreigners may be granted leaseholds, will maintain foreign ownership restrictions on most businesses, and will reserve 32 categories of profession – including architects and hairdressers – for Thais only.

"Foreigners are going to have to make arrangements or use other channels or vehicles," says Vicharat Vichit-Vadakan, secretary-general of the Financial Sector Restructuring Authority, the agency in charge of disposing of the assets. Thais, it seems, are willing to forgo potentially higher earnings as a price for keeping local control of "strategic" assets.

Similarly, local bankers prefer to trim their asset base rather than lose control to foreigners. This was part of the reason that Citibank's deal to take over First Bangkok City Bank was scuttled last week.

The questions about foreign ownership raise the fourth worry: structural change. The fear is that the government, and especially Leekpai Chuan, the premier, is seeking simply to restore stability and the pre-crisis status quo rather than use the crisis to push through more radical change.

Mr Abhisit defends the government's intentions, promising a number of "very, very significant" bills relating to foreign investment, decentralisation, privatisation, financial supervision and bureaucratic reform. "Getting back to where we were [a couple of years ago] is just not good enough," claims Mr Abhisit. "I don't think people will accept that."

There appear to be many things Thai people will not accept as the economy contracts and the potential for a social backlash remains. Restrictions on foreign ownership are one example. The constant unknown in Thailand's economic future is politics. If a stable and determined government can restore confidence in just three months, the country's noted political instability could wipe confidence away in a fraction of that time.

But the positives outweigh the negatives. Mr Tarrin has the backing of Mr Chuan, the first time a civilian government has given its finance minister free rein. And the finance minister has defended ordinary consumers against some harsh measures prescribed by the IMF while at the same time retaining his status as the Fund's "perfect student".

Says an IMF official intimately involved with Thailand's recovery efforts: "It's really hard to get them to take tough decisions. And when they do, they get really surprised when it's taken positively and they don't lose their jobs. That makes all subsequent tough decisions a little easier to make."

Revised agreement between Thailand and IMF

- Adjusts 1998 economic growth target down to -3.5 per cent from 1 per cent; inflation up to 11.6 per cent from 10 per cent; current account to a surplus of 4.4 per cent of GDP from a deficit of 2.5 per cent of GDP; budget deficit of up to 2 per cent of GDP compared to surplus of 1 per cent of GDP
- Announce stricter loan classification requirements for commercial banks by end-March and force banks to recapitalise based on those new requirements by end-1998
- Set up a privatisation secretariat within the Ministry of Finance by end-June. Substantially privatise Thai Airways, Bangchak Petroleum, Electricity Generation PCL by end-1998, market conditions permitting
- Issue government bonds to pay for financial system [illegible] and begin to incorporate interest costs into budget next fiscal year. Pay for bonds with privatisation receipts
- Use high interest rates to defend currency and bring them down when exchange rate "has shown stability in a more realistic range". Provide subsidised financing for exporters

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Greenspan's uncertainty

Alan Greenspan, chairman of the Federal Reserve, has skilfully walked the high-wire of economic policy for over a decade. But he now confronts as much uncertainty over the way ahead as ever before.

Mr Greenspan can at least take pleasure from what he is able to see behind him. In 1997 US real gross domestic product expanded almost 4 per cent, while 3m additional jobs were created. Increases in hourly wages and salaries of 4 per cent proved consistent with consumer price inflation of just 1½ per cent; along with further improvements in profit margins. A strong rise in labour productivity explained this benign combination of rising real wages, lower inflation and improving profitability.

No doubt his audience will react with patriotic pride to Mr Greenspan's account of their country's world-beating performance. He, for his part, must hope they respond with equal enthusiasm to his recommendation of a budget surplus as "the surest and most direct way of increasing national saving".

Yet the most important part of his message was not congratulation, but concern. At home, there is a steadily tightening labour market, with wages and salaries in the sheltered sectors of the economy rising almost 1¼ percentage points faster than in industries exposed to international competition. But abroad is the Asian financial crisis.

Mr Greenspan suspects the Asian crisis will make any intensification of inflation "delayed, very gradual and readily reversible". But this hope could go awry in either direction: if the drag coming from Asia is small, it may fail to contain US inflationary pressures; if it is strong, it may tip the economy into a slowdown. The forces are finely balanced. At its most recent meeting the open market committee did nothing. But it did so fully aware of the huge uncertainty it confronts.

Nor is the Asian crisis the only reason for worry. Lenders and equity investors have of late shown an increasing and – to Mr Greenspan's mind – disturbing indifference to risk. However understandable after seven years of economic expansion, such complacency may haunt investors and policymakers a year or so hence.

Equally disturbing is the possibility that Congress will fail to support the administration in its efforts to stabilise "the new high-tech international financial system". A retreat from world leadership or a backslide into protectionism would threaten US performance itself.

As Mr Greenspan notes wryly, "events in the months ahead are not likely to unfold smoothly". That uncertainty might diminish if Congress turned its back on the world – but only by turning first into unambiguous calamity.

Drug losses

Three years ago Jan Leschly, chief executive of SmithKline Beecham, opined that mega-mergers were not the way to combat slower growth in the drugs industry. He could find little evidence that research and development productivity rose after mergers.

Last month Mr Leschly helped unveil the world's biggest potential merger between SmithKline and Glaxo Wellcome. He trumpeted the wondrous logic of the deal, as did Glaxo chairman Sir Richard Sykes. Analysts and investors cheered: the shares soared.

Now that the putative merger has fallen through, the stock market values have proved as evanescent as the Cheshire cat's smile. Mega-columns will be devoted to explaining how, why, and whom to blame. Yet the more important question is whether the supposed values were ever there for the taking.

Most of the big corporate value creators of the past 30 years have not relied on acquisitions and mergers. Those like Sony in Japan are the product of a culture in which deal-making is rare. Microsoft and Intel of the US have been fiercely dedicated to organic growth. Glaxo itself became the world's most successful drugs company under a chairman, Sir Paul Girolami, who explicitly ruled out growth by acquisition.

The succession of Sir Richard Sykes brought Glaxo's bid for Wellcome, while Beecham tied a knot with SmithKline. Nobody can be sure how successful these amalgamations are because their value lies chiefly in human and social capital – the skills of scientists and managers, and their readiness to co-operate and share knowledge within the organisation.

It is possible in such industries for recorded profits to rise while value is destroyed. It is probable, too, that if managers are at odds, employees are being fired and morale is collapsing after a merger, the world's biggest drugs company will not be synonymous with the best.

Upsets like those confronting Glaxo and SmithKline are inevitable in a transactional culture where takeovers and mergers are the remedy of first and last resort, whether for strategic problems or poor governance. Any retreat from that culture will call for more soft data in company accounts on the contribution of human and social capital to competitive advantage. Investors also need to understand the value-destroying capacity of corporate reshuffling in advanced industries.

The losses recorded in Glaxo and SmithKline shares this week should not be a cause of any great concern. They are no measure of the loss of real economic value, if any, from the collapse of their merger talks.

Dome-ocracy

At midnight on December 31, 1999, Tony Blair will greet the millennium at the centre of the world; possibly of the universe. Certainly, he will walk on air, if the Greenwich Dome turns out half as fine as his phrases.

Admittedly, the British prime minister was on a marketing pitch yesterday, in search of commercial sponsors to plug the gap between the £750m cost and the £400m of lottery funding for this Thames-side extravaganza. Buy a piece of the action, he said, and prove you are a 21st century company – like, say, British Telecom, Tesco (groceries), Manpower (job placements) and BSkyB (satellite television). Cheap at £12m a slice.

But what is the Dome – apart from being 13 times as big as the Albert Hall and the largest edifice of its kind in the world? First, it is bang on longitude zero. So Mr Blair believes, with a rather nationalistic interpretation of planetary motion, that the whole world's new millennium will start at Greenwich.

Conveniently forgetting that fireworks in Shanghai will have been let off eight hours before Britain celebrates, Mr Blair waxes lyrical: "This is Britain's opportunity to greet the world with a celebration so bold, so beautiful, so inspiring…"

Second, the Dome is intended to show the government in a good light. Mr Blair mentioned five of his ministers to whom credit is due for the remarkable success it is going to be. And the title of the Dome's exhibition, "Time to make a difference", echoes punningly a central aspiration of the Labour party. The prime minister wants every child in Britain to take part in the millennium experience. It will all help to get their mums and dads in a good mood for the next general election.

But will it work? The plans outlined yesterday showed a curious mixture of Disneyland, pedagogy, business promotion and showbiz – emulsified with a few drops of secular piety. It is easy to mock mock-ups with titles such as "Licensed to Skill" and "Spirit Level".

But everything will depend on how it is done. This might turn out to be a spectacular folly – or a spectacular spectacular. Its scale alone may attract the 12m projected visitors, many of them showering dollars and euros over London.

Domophiles say that the Great Exhibition of 1851 and the Festival of Britain (1951) were both much more popular than predicted. It may be so again.

But the legacy of the Festival was a grand new concert hall. The tone in the Dome will be rather different, we hear: "Emotional and uplifting like a West End musical…". *O tempora! O mores!*

Pop goes the merger bubble

The collapse of two big mergers puts pressure on top managers to think much harder about market valuations, says Tony Jackson

Suppose you are chairman or chief executive of one of the following: Barclays Bank, J. P. Morgan, Prudential Insurance or the drug group Zeneca. Your industry is in a frenzy of mergers. The outside world expects you to join in.

But strange things are happening. Ten days ago, the proposed merger of the accountants KPMG and Ernst & Young fell apart. This week, the biggest merger of all time, the £100bn tie-up between Glaxo Wellcome and SmithKline Beecham, went the same way. So you ask yourself: where does this leave me?

The question can be framed in more general terms. Several industries – telecoms, drugs, financial services – are going through a burst of consolidation. The stock market has reacted accordingly; so the shares of the UK banks, for instance, have been pushed up in anticipation.

In these days of shareholder value, that puts managers under considerable pressure to act on market expectations. If they do not, after all, they risk a collapse in the share price and the wrath of the investing institutions.

But in the wake of the Glaxo-SmithKline failure, questions are being raised about about whether some of the market's expectations are unrealistic. There are rumours of other merger talks petering out – between NatWest Bank and various suitors, for instance. Even mergers announced with great fanfare, it seems, are starting to fall at the last hurdle.

Perhaps this is telling us something. What if the Glaxo-SmithKline debacle were to prove a watershed for the merger boom of the late 1990s? Would that not leave the equity markets perilously exposed?

The market optimist would say that conclusion is overdoing it. Glaxo might be seen as a special case. It has been billed, after all, as a clash of corporate egos: an outburst of Higher Childishness. The fact that all-powerful chief executives can squabble over the pecking order may be depressing. It is hardly news. But it is hardly likely to have been decisive either. The reality is that both Glaxo and SmithKline have robust outside directors, and powerful, and demanding shareholders.

Neither factor should be underestimated. SmithKline's chairman, for instance, is Sir Peter Walters, former chairman of BP. The board also includes the chairmen of Xerox, Barclays and Reuters, and BP's current chief executive, John Browne. These are not only formidable individuals: they have reputations to protect. As for the shareholders, they are out of pocket on the whole transaction.

Now it might seem that Glaxo, especially, is too big to worry about this. But the institutions will have at least an average market weighting in the big drug stocks. That is, they have as much collective power over Glaxo as they do over the rest of the market.

The real lessons of the affair seem twofold. First, there seem to have been genuine cultural differences between the two companies about how things should be run.

This is hardly surprising. A senior management consultant predicted privately last month that the Glaxo-SmithKline merger would prove hard work. Drug companies, he said, have highly intelligent and articulate staff at all levels of the organisation. It is correspondingly harder to bang heads together.

In this case, it seems, Glaxo's managers felt they were not getting a big enough slice of the action. Pressure was then passed up to the chief executive, Sir Richard Sykes, who transmitted it by raising his demands to a point that proved unacceptable to SmithKline.

Therein lies the second part of the lesson. When contemplating a merger, it is essential to take account of the alternatives.

Glaxo could afford to walk away: first, because it is big enough to pursue other mergers as the dominant partner; second, because it had already achieved a handy strategic objective by scuppering SmithKline's previously arranged merger with American Home Products.

What about SmithKline? In business, as any strategist will tell you, the essential thing is always to have a Plan B.

For SmithKline to botch two mergers in the space of weeks would always have looked damaging. One would therefore expect such an experienced board of directors to draw up contingency plans before agreeing to talk to Glaxo in the first place. Perhaps such a plan will duly emerge. If not, there is a case to answer.

The whole affair, in short, should serve as a useful reminder to other companies of the risks inherent in the merger process. Indeed, they might reflect that however messy the outcome, it would have been a great deal worse if the parties had gone ahead.

This brings us back to our starting point. Industry consolidation usually comes in waves, which are more complex than they appear on the surface. Sometimes, as with telecoms or US utilities, they are the product of a specific event, such as deregulation. At other times, they are driven by nothing more rational than a fear of being left out.

In banking and the drug industry, for instance, it can certainly be argued that times will get tougher in the foreseeable future. But it is a curious fact that so far, at least, the profitability in those industries is at record levels.

It is therefore conceivable that, if more deals fall through, the fever to merge would lose its urgency. This is not to say that those industries would not consolidate eventually; just that they might do so in a more deliberate fashion.

If so, the equity markets might indeed be in for a rough ride. In the London market, especially, there has been growing apprehension among analysts that if the hoped-for deals in banking and insurance do not come off, there will be the devil to pay.

If so, it serves the market right. In recent months, there has been a tendency for the shareholder tail to wag the management dog: for investors to push companies into the grand gesture. If so, companies are right to resist. For as the Glaxo-SmithKline case reminds us, when it comes to the crunch, the managers are on their own.

Flawed logic or canny ploy?

There are three possible explanations for the collapse of the world's biggest merger, between Glaxo and SmithKline Beecham.

The first assumes that the arguments originally used to explain the merger were justified: that is, that the spiralling cost of new drugs and the need for powerful marketing departments to negotiate with increasingly large and cost-conscious drugs purchasers both explain why pharmaceutical companies have to become ever larger.

If this logic was right at the time, then the reasons now being given for the merger being called off are hard to understand. One explanation is that the two chief executives concerned, Sir Richard Sykes of Glaxo and Jan Leschly of SmithKline, could not work together. It is hard to believe this can really be true.

The cancellation wiped £8.8bn off Glaxo's market capitalisation and £4.6bn off SmithKline's. The share prices of both companies were lower yesterday than before the bid was announced. These figures are a measure of the shareholder gains that have been lost with the abandonment of the deal. If it was scrapped because of personal differences between the two men, then the cancellation must count as one of the most remarkable examples of executive irresponsibility in history.

And if industrial logic and shareholder value is indeed being sacrificed for this reason, then the non-executive directors and institutional investors might conclude that the merger should proceed anyway – either as a hostile takeover by Glaxo or as a friendly merger between the two companies under new management. After all, it is usually imagined that executives are supposed to serve the interest of their companies, not the other way around.

But perhaps the deal was not abandoned because of a personal clash between the two bosses. If not, then it must have been abandoned because of a cultural clash between the two companies. Yet that too makes little sense.

Executives now say it proved impossible to merge two companies long accustomed to treating each other as rivals – something that is true of all mergers. They also say that that the decentralised Glaxo could not easily be matched with the more cohesive SmithKline.

But these are objections that must have been universally known and understood long before there was any talk of a merger. If they were so important, why was the proposal made in the first place? Either way, the architects of the merger have a lot of explaining to do.

All that seems logical if the original arguments in support of the merger are indeed accepted. But what if they are not? What if the deal was never really about the need for consolidation but was instead more about, say, empire-building by managers?

In that case, the point about non-executive directors and institutional investors stands with even more force, albeit for a different reason: the chief executives would then have plunged their companies into a failed merger for reasons which no non-executive director or institutional shareholder can be expected to sympathise with. For this reason, too, the chief executives should be called to account.

There is one last explanation for the failed merger. This is that it was really a canny manoeuvre by Glaxo to scupper a link-up between of its two rivals, SmithKline Beecham and American Home Products, who had agreed to merge before Glaxo made its approach.

If this is the case, then arguments about logic were just so much camouflage, and the world's biggest-ever merger would then have been nothing more than a temporary spoiling operation.

This explanation would rescue a shred of rationality from the episode. Otherwise, the tale appears to be one of foreseeable conflict, poor planning and inadequate supervision.

John Parker

· OBSERVER ·

Standard bearer

■ Korea's foreign debt negotiations may have had a distinctly American feel, with Citicorp's Bill Rhodes taking centre stage, but out in Jakarta you're more likely to hear cut-glass English accents than new world drawl.

Until a couple of weeks ago former Bank of England director Pen Kent was advising the Indonesian government on how to deal with its $80bn headache. Now the Honourable David Brougham, an aristocratic Brit, has emerged as leader of the foreign banking brigade.

As Standard Chartered's point-man in Hong Kong, Brougham has been in the thick of things since the Asia crisis erupted last year. But it is in Jakarta, where Standard Chartered has been open for business since 1863, that he's really come to the fore. It could be a suitable climax to Brougham's 40-year career.

The soft-spoken 57-year-old has picked up a trouble-shooting reputation since he joined Standard Chartered in 1990: when the bank tripped up in India a few years back, Brougham was sent to sort wheat from chaff.

His latest assignment will be more complex. Dozens of international banks will have to be corralled if there's going to be an agreed deal. The man who was due to retire in April will surely have to think again.

Border dispute

■ Portugal is confident of a berth at the launch of the euro. But the government of António Guterres felt European integration was being taken too far when promotional posters for the single currency abolished the border with Spain.

It's not the first time Portugal has had to defend the Iberian status quo; last year the design for euro coins was changed because they failed to show a clear boundary. This time finance minister António Sousa Franco fired off an irate letter to European commissioner Yves-Thibault de Silguy, the man responsible for the offending posters, fuming over "the extremely negative impact" on Portuguese public opinion. The embarrassed European Commission rapidly agreed to restore the frontier. Could take longer in Portuguese eyes to restore the loss of face.

History lesson

■ A notable day yesterday for US secretary of state Madeleine Albright. Not only did she make her final, and almost certainly successful, appeal to the Senate to approve the enlargement of Nato. It was also the 50th anniversary of the Communist takeover in Czechoslovakia – an event which forced her family into exile and alerted western countries to the need to face down Soviet power in eastern Europe.

Never one to hide her Czech background, Albright was quick to make the connection between the two events. Unless Nato expanded, she warned, it would be one of the few institutions in the world that still respected the divisions of the cold war.

Nagano further

■ Kofi Annan may be grabbing headlines for saving Saddam Hussein's palaces from fiery oblivion, but less has been said about the role played by the snowboarders and speed-skaters at the winter Olympics.

Top-level sources tell Observer that Japan leant heavily on the US and Britain not to start bombing until the Olympic torch in Nagano had been extinguished. Tokyo was concerned about the possibility of a walk-out by some competitors – although the Arab world wasn't strongly represented on the slopes – and the probable impact on television coverage if shooting started.

So while the curling moved to a dramatic conclusion and the world was engrossed in double-axels and moguls, Kofi Annan had a vital window of opportunity to avert a bloody confrontation. Let's hope it's not downhill from here.

Class act

■ The IMF may be prepared to cut Thailand a bit of slack, but money's still tight for the country's military.

Take Thailand's spanking new aircraft carrier, the first in south-east Asia; it costs a packet to keep the stately ship at sea, so most days it stays moored in Sattahip port – where it earns revenue selling souvenir caps and T-shirts to tourists. About 1.5m visitors have popped along in the last six months.

The country's F-16 fighters, used to train top-gun pilots, are also grounded. Training flights cost Bt140,000 ($3,000) per hour and pilots are required to fly at least 12 hours a month to stay combat-ready. So 100 fly-boys have been transferred to the Air Force's Institute of Higher Education to study "flying theory".

No wonder Thailand wants to cancel its $500m order for a squadron of even more advanced F-18s. The classrooms must be packed already.

The Financial Times

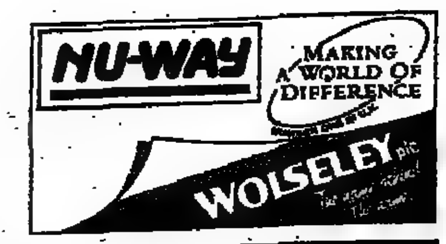
100 years ago

The Lost Umbrella
No more shall the lost umbrella be a source of grief for its owner and a subject of jest to his friends, for the Mutual Property Recovery and Accident Company has tackled the great problem. A shilling is paid to the institution, and by return of post comes a brass label which a man may fasten to his keys, his umbrella, his purse or his baby. Inscribed thereon is a legend offering, in the event of loss, a reward of five shillings to the finder. Loss of keys is a comparatively slight risk, because if they are important the owner always carries them in a safe pocket, occasionally slapping it to make sure they are where they should be. The umbrella, however, is an extra hazardous risk: carried only on wet days, it is almost certain to be left somewhere should the rain stop.

50 years ago

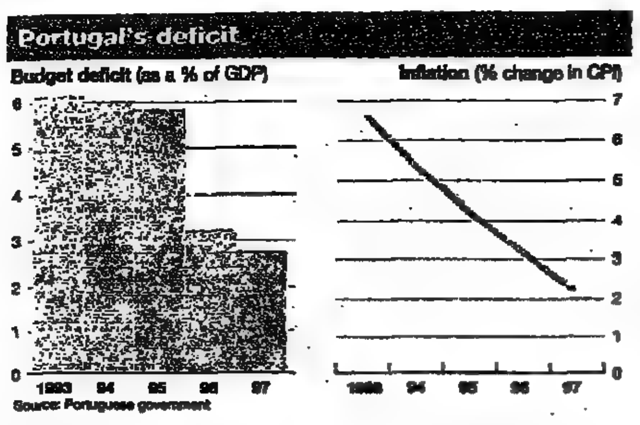
French Govt's Victory
The French National Assembly gave the Prime Minister, M. Robert Schumann, his sixth vote of confidence to-day by 291 votes against 268 – a majority of 23. The vote was on the Government's decision to refuse a Bill calling for repayment of the withdrawn 5,000-franc notes.

FINANCIAL TIMES
Wednesday February 25 1998



Portugal says single currency targets met

By Peter Wise in Lisbon



Portugal will qualify comfortably for membership of the European single currency, according to figures that Antonio Guterres, prime minister, will submit to the European Commission today.

The figures, including a cut in the country's budget deficit to less than 2.7 per cent of gross domestic product in 1997, show that Portugal complies with the criteria for joining economic and monetary union.

Portugal is one of the first EU countries to submit its 1997 economic statistics to Brussels and the European Monetary Institute. All 15 member states have until this Friday to submit last year's data. On March 25, the Commission and the European Central Bank will report on the countries' qualifications for joining the euro.

There is particular interest in whether the countries aiming to introduce the euro on January 1 1999 – all the EU members except Britain, Sweden, Denmark and Greece – will keep their budget deficits below 3 per cent, as set out in the criteria contained in the Maastricht treaty.

"We have proved we can do it," Mr Guterres said in an interview. "When the European Union begins expanding eastwards, being part of the euro will provide Portugal with the crucial comparative advantage of credibility. Our economy has become much more reliable for foreign investors than it was before."

But for the Portuguese prime minister, whose minority government took office in November 1995, the country's successful effort to qualify for Emu was more a political than an economic option: "If you want to really count in Europe, to influence decisions and policies, you have to be at the centre of the European process. You can't do that from outside the euro."

The scale and speed of Portugal's achievement in disciplining its finances have surprised many economists. "We sometimes need an outside stimulus and the euro has forced us to do things properly," Mr Guterres added.

Tight fiscal policies to meet the Emu criteria were introduced by the previous centre-right government. But the most dramatic improvements have been accomplished under the Socialists, who have benefited from an upturn in the economic cycle, with GDP growth well above the EU average in 1996 and 1997.

Observer, Page 12

Thailand to speed reforms

By Ted Bardacke in Bangkok

Thailand yesterday deepened its commitment to economic reform by pledging to speed up privatisation and banking reform.

In return Bangkok is expected to secure the release in March of the next tranche of funding, worth $1.9bn, under a $17.2bn International Monetary Fund rescue package.

The government made its promises in a revised agreement with the IMF, the details of which were approved by the cabinet yesterday.

Among the companies slated for sale this year are Thai Airways, Bangchak Petroleum, and Electricity Generation.

Bangkok won two concessions from the IMF, which regards Thailand's commitment to reform as solid. The country will be allowed to run a budget deficit of up to 2 per cent of gross domestic product this year, compared with an original target of a 1 per cent surplus.

Interest rates may also be lowered if the regional financial turmoil subsides and the exchange rate stabilises. Thailand's economy is expected to contract by at least 3 to 3.5 per cent this year.

The relaxation of the budget target will allow the government to increase social spending for the poor. But it will also be forced to raise several taxes, including one on petrol. Mass opposition to a similar tax rise helped push the former government of Chavalit Yongchaiyudh out of office.

"The main challenge of new premier Chuan Leekpai will be how to convince the poor Thai majority that the oil tax increase is a measure essential for economic recovery, not an easy way out of a financial mess created by a small group of greedy rich people," said The Nation newspaper in a front-page editorial.

The government says it will be equally tough on the country's banking industry. Next month the authorities will announce stricter loan classification requirements. Banks that fail to comply could be taken over by the state.

The Petroleum Authority of Thailand, the Telephone Organisation of Thailand and Communication Authority of Thailand will be sold next year. A special privatisation secretariat will be established.

First in, first out? Page 12
Observer, Page 13

Greenspan sees uncertain year for economy

Continued from Page 1

economy in 1998: although labour markets were likely to remain tight, the restraint Asia would exert meant "any intensification of inflation should be delayed, gradual and readily reversible".

The Fed's central forecast envisages growth this year of 2 to 2.75 per cent against last year's estimated 3.8 per cent. Inflation is expected to remain in the range of 1.75 to 2.25 per cent. But the central bank chairman acknowledged there were "worrisome possibilities" of either a sharper slowdown than forecast or of continued strong growth that would ignite inflation – and he suggested that policy would reflect the uncertainty.

Financial market economists said his remarks emphasised that the Fed was unlikely to change interest rates for the foreseeable future.

The commerce department yesterday reported further evidence of the continuing absence of inflation in the US, saying consumer prices were unchanged in January – the first month in four years without an increase. In the three months to January, prices rose at an annual rate of just 0.7 per cent.

The Conference Board, an independent research organisation, reported confidence had surged to a 30-year high this month.

Millennium threat to travellers navigating with GPS

By Henry Hamman in Miami and Alan Cane in London

Yachtsmen, walkers and travellers who rely on the worldwide global positioning system for navigation could lose their way in 2000 because of the millennium "bomb".

Concerns are growing that older GPS receivers – used in boats, trains, light aircraft and motor vehicles – could become severely disoriented both as a result of the bomb and another threat labelled the "GPS rollover issue".

GPS involves a network of 28 satellites 18,000km into space, which transmit navigational beams to Earth where they can be tracked by cheap and simple receivers.

The bomb, caused because computers are unable to distinguish between this century and the next because of the way they have been programmed, is recognised as a potential cause of disruption.

The rollover issue, however, involves the way the GPS accounts for time. It uses a week-numbering system starting on January 6 1980 and running for 1,024 weeks to August 21 1999. The week number will roll over to "0000" on this date and as a result, some receivers will navigate incorrectly.

The US Air Force, responsible for the operation of the GPS satellites and their ground control stations, is repairing software that controls the system on the ground to correct for its inability to deal with the change to a new millennium. Officials say those corrections should be completed by the end of 1998.

However, many thousands of low-cost receivers have been sold for private use and these are beyond the air force's reach.

Use of the GPS system, originally launched to help the US aim its smart weapons and missiles, has mushroomed in the private sector as the price of receivers falls and the number of GPS-driven applications grows.

The US Air Force Space and Missile Systems Center issued a memorandum last year requesting systematic checks of GPS systems to ensure both Year 2000 and GPS rollover compliance. The memorandum said failures of the GPS system could cause "catastrophic mission failure".

Receivers bought in the past two to three years will be "millennium compliant" as manufacturers have taken the necessary remedial action. But industry is urging owners of older receivers to have their systems checked by the manufacturers.

Technology, Page 10

THE LEX COLUMN

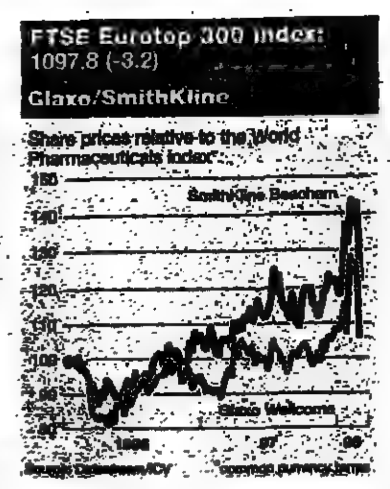
Sykoanalysis

Sir Richard Sykes did not get where he is today by pussyfooting around with "mergers". Anyone from the old Wellcome, which fell to a £9bn hostile bid from Glaxo in 1995, will tell you that. But this time it had to be different: SmithKline was too big and too expensive to be taken over. It could only be seduced via a caring, sharing merger, and that was the nod and the wink originally cast towards it by Glaxo. So is it the fault of Sir Richard and Robert Ingram, his chief executive, that a deal with compelling logic fell apart, destroying £18bn of the companies' value in one day?

It looks as though they deserve blame for seeking to make clear they were top dog. The bleatings below them were foreseeable in a merger of this size and ambition – not least on the cost-cutting front. Leaders are paid to steer their companies through such upheavals for the sake of the greater business logic, with which the market has been bombarded. It would, of course, have taken an unaccustomed self-denying ordinance either for Sir Richard to take a more back seat chairman's role or for Mr Ingram to give up hopes of succeeding Jan Leschly of SmithKline as chief executive. Such concessions might not have been necessary: Mr Leschly might have given way.

At SmithKline, Jan Leschly and his number two, Jean-Pierre Garnier, seem to have been naive, and then awkward too. Glaxo was the bigger company, it would be making the offer and Sir Richard was famous for his force of character. Would this ever be a merger of equals? No. Here, too, many people would have to be told that their empires and ambitions were being curtailed. Having jilted American Home Products in favour of Glaxo, Mr Leschly and Mr Garnier should have been more prepared to compromise. In both cases, it seems the non-executives were not doing a good enough job of defending shareholder interests above those of management.

Ideally, the deal would be resuscitated. But how? Glaxo could in theory launch a hostile bid. To raise, say, £45bn it could issue £15bn equity with the rest in debt. At 9 per cent interest, that gives interest cover of two times on £6bn trading profits – assuming £1.5bn of savings from day one. Financially feasible at a stretch, but surely value-destroying at over 40 times SmithKline's 1997 after-tax earnings. An all-paper, no-premium deal might



preserve value for Glaxo investors, but it is hard to see SmithKline shareholders buying it.

SmithKline could embark on another merger or stay single. It could easily raise cash to beef up its research and development technology. Glaxo could not pull off a "merger of equals" – no potential partner would believe it. So it will have to deliver the double digit sales growth it promised post-1998. For instance, it will have to convert the 18 potential drugs it took into exploratory development last year into marketable products at the demanding rate of one in six. This would prove that its last deal was about more than cost-cutting and that combining R&D budgets really can make one and one equal three.

J.P. Morgan

Like any merchant banker worth his salt, Sandy Warner, J.P. Morgan's chairman, is excellent at analysing the problem: Morgan stands at the threshold of the investment banking super-league. The next couple of years will determine whether it closes the gap on Merrill Lynch, Morgan Stanley and Goldman Sachs or not. And, as Mr Warner candidly told his staff this week, runners-up cannot produce superior returns.

But he appears reluctant to follow through on his own logic. There seem to be two clear paths to the top. The first is internal growth fuelled by heavy investment. This has already brought Morgan a long way, but at a cost to profits – the bank's return on equity was 15 per cent last year against nearly 25 per cent at Merrill and Morgan Stanley, and its shares have lagged badly. The second choice is to retrench to profitable areas and seek a partner to gain the necessary scale. While the bank has not closed off that option, it is clearly reluctant to pursue it.

Instead, Morgan is taking a middle road. It will rein in spending and cut 5 per cent of its staff. But that amounts to little more than good housekeeping – it will hardly transform profitability. If Mr Warner is really convinced that internal growth can propel the group into the bulge bracket, now is surely the time to step up investment. Morgan's loyal shareholders could undoubtedly be persuaded to sacrifice some short-term gains in return for that pay-off.

NatWest

That 1997 was the National Westminster Bank's *annus horribilis* is well documented. A 10 per cent fall in pre-tax profits takes it back to just ahead of 1993 levels. Clearly the worst is behind. But does that mean it is time to be enthusiastic about the stock?

Certainly the shape and strategy of the bank look better than for a long time. Retreating from global investment banking was clearly correct, albeit expensive. Focusing instead on extracting value from its core franchises in UK business and personal banking makes better sense. Much will turn on the success of the roll-out of its new UK retail bank. There are some promising early signs, but yesterday's results are a reminder that it is wise not to take too much on trust. True, the core UK bank made a commendable 28 per cent return on equity. But sub par performances at Coutts and in the treasury division show that the bank is still far from firing on all cylinders.

A deal would clearly offer quicker gains than the organic growth path. But the management is right to be focusing now on improving its existing business first. Given that deals are on the radar, and assuming prices retreat from current valuations, the preference for linking with a mortgage house or insurance company over a merger with Barclays looks like sensible *realpolitik*. For shareholders, any upside from current levels looks limited. A valuation of around 18 times 1998 earnings is clearly inflated by consolidation hopes – and these may well be some time in arriving.

Additional Lex comment on Safeway of the UK, Page 21

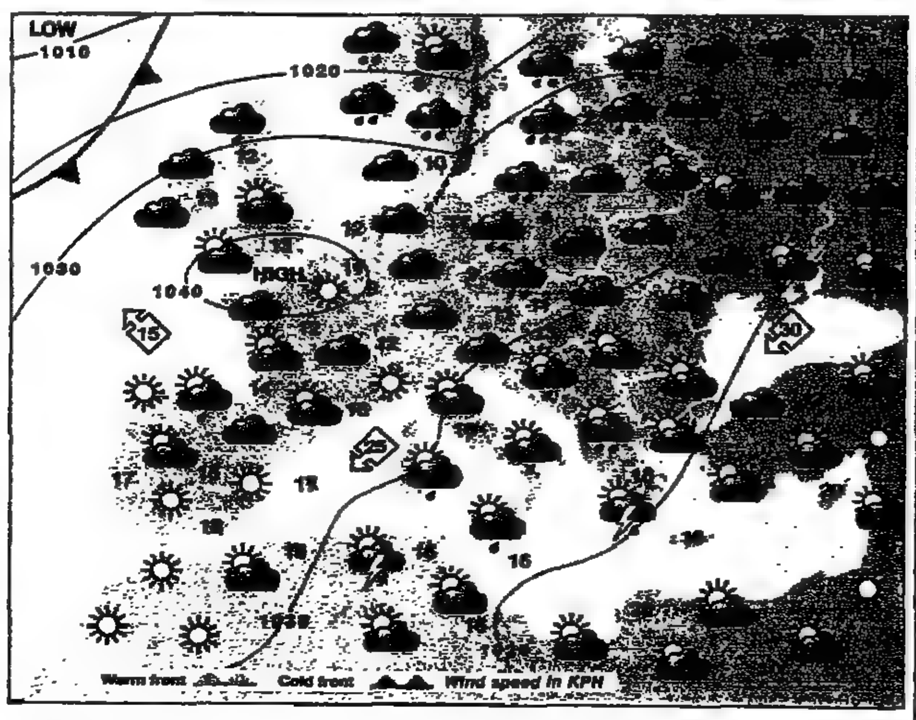
FT WEATHER GUIDE

Europe today

Scandinavia will have heavy snow as an active warm front moves in from the west but it will gradually turn to rain in all parts except north-eastern Finland. Central and north-western Europe will be very mild but rather cloudy with showers in the north and east but the south and west will have sunny spells. The Iberian Peninsula will be fine with the best of the sunshine in the south. The central and eastern Mediterranean, including the Aegean, will be mostly dry with plenty of sun, but Tunisia and Sicily may see a few showers and scattered thunderstorms.

Five-day forecast

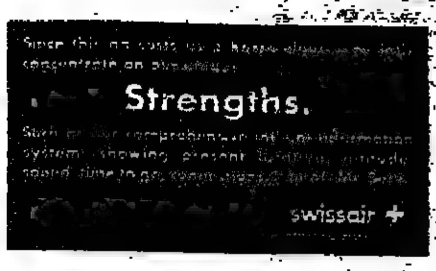
Scandinavia will remain unsettled and will turn cold again with further snow. Central and north-western Europe will also become much colder with rain clearing to leave blustery wintry showers. The eastern Mediterranean will be unsettled with showers and scattered thunderstorms but the Iberian Peninsula will remain fine and dry.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

	Maximum/	Beijing	Fair 9	Cardiff	Cloudy 11	Frankfurt	Drzzl 12	Madrid	Fair 15	Rangoon	Fair 35
	Celsius/	Belfast	Cloudy 12	Casablanca	Fair 20	Geneva	Cloudy 12	Majorca	Fair 17	Reykjavik	Snow 0
Abu Dhabi	Sun 25	Belgrade	Drzzl 13	Chicago	Fair 7	Gibraltar	Sun 17	Malta	Thunder 16	Rio	Thunder 30
Accra	Fair 32	Berlin	Rain 11	Cologne	Drzzl 12	Glasgow	Drzzl 12	Manchester	Fair 13	Rome	Fair 16
Algiers	Shower 17	Bermuda	Fair 19	Dakar	Sun 28	Hamburg	Rain 11	Manila	Thunder 31	S. Frsco	Fair 13
Amsterdam	Fair 12	Bogota	Thunder 19	Dallas	Fair 20	Helsinki	Snow 0	Melbourne	Cloudy 27	Seoul	Cloudy 12
Athens	Fair 18	Bombay	Fair 31	Delhi	Fair 23	Hong Kong	Cloudy 15	Mexico City	Sun 27	Singapore	Thunder 33
Atlanta	Sun 22	Brussels	Cloudy 14	Dubai	Sun 24	Honolulu	Sun 27	Miami	Sun 26	Stockholm	Shower 8
B. Aires	Fair 25	Budapest	Fair 13	Dublin	Fair 13	Istanbul	Fair 12	Milan	Fair 16	Strasbourg	Cloudy 12
B.ham	Fair 12	C.hagen	Cloudy 10	Dubrovnik	Fair 17	Jakarta	Shower 31	Montreal	Fair 1	Sydney	Sun 29
Bangkok	Thunder 35	Cairo	Fair 21	Edinburgh	Fair 13	Jersey	Fair 12	Moscow	Snow -6	Tangier	Fair 19
Barcelona	Sun 18	Caracas	Fair 29	Faro	Sun 19	Johan'sburg	Shower 24	Munich	Rain 9	Tel Aviv	Sun 20
						Karachi	Sun 27	Nairobi	Fair 28	Tokyo	Rain 11
						Kuwait	Shower 19	Naples	Shower 16	Toronto	Fair 7
						L. Angeles	Fair 16	Nassau	Sun 27	Vancouver	Shower 7
						Las Palmas	Fair 27	New York	Cloudy 9	Venice	Fair 14
						Lima	Fair 31	Nice	Fair 16	Vienna	Rain 11
						Lisbon	Sun 17	Nicosia	Sun 20	Warsaw	Cloudy 6
						London	Fair 13	Oslo	Shower 8	Washington	Sun 16
						Lux.bourg	Cloudy 10	Paris	Cloudy 12	Wellington	Sun 19
						Lyon	Fair 13	Perth	Sun 28	Winnipeg	Snow 1
						Madeira	Fair 21	Prague	Drzzl 9	Zurich	Cloudy 10



FINANCIAL TIMES
COMPANIES & MARKETS

 Wednesday February 25 1998 Week 9

INSIDE

Polish groups seek solidarity

Under the auspices of Poland's Mass Privatisation Programme, the Piast investment fund has created the largest textiles group in central Europe. The move suggests that the best way for the country's fragmented industrial producers to deal with competition from Europe and beyond is to consolidate. Page 19

J.P. Morgan tries to raise its game
After nearly a decade of building its investment banking business, J.P. Morgan is unhappy with its financial performance. Its problem is that overheads are as high as those of the global leaders, but revenues are not. Its planned cuts may help in the short term, but in the longer term, analysts say the bank has to boost its position in the global equity and mergers and acquisitions sectors. Page 16; Lex, Page 14

Inheritance taxes Televisa heir
Emilio Azcárraga Jean inherited Televisa, the largest media company in the Spanish-speaking world, last April at the age of 29. With it came his father's debts, believed to be more than $750m. Last week, Mr Azcárraga took an important step towards restoring confidence by appointing as chief financial officer Gilberto Pérez Alonso, widely respected for his work at Cifra, a large, successful retail group. Page 17

Net gain for Peru despite El Niño
In the northern Peruvian port of Paita, even the pelicans are listless. With ocean temperatures up to eight degrees centigrade higher than normal because of the El Niño weather phenomenon, the usual abundance of fish close to the shore has vanished. However, Peruvian fish exports were a record $1.36bn because fears of shortages drove fish meal prices to an all-time high on the international markets. Page 24

Companies in this issue

Market Statistics http://www.FT.com

CROSSWORD, Page 24

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Gerresheimer	26	+	1
Glunz	72	+	2
Wella	1230	+	[illegible]
Falls			
Rinol	43.90	–	4.40
SGl Carbon	199.5	–	39
Strabag	111	–	9
NEW YORK ($)			
Rises			
Medpartners	12⅞	+	1⅛
Shanghai Pet	16⅛	+	1⅝
Unit Auto	16¾	+	2
Falls			
Bergen Bruns	44½	–	7⅛
Kent Elec	21½	–	5⅞
SGl Carbon	36¾	–	6⅞
LONDON (Pence)			
Rises			
[illegible]	389	+	35
Rckt & Coleman	1105	+	42
Wimpey (G.)	117	+	5½
Falls			
BSkyB	365	–	12
Glaxo Wlcm	1657	–	247
Smithkline Bchm	724	–	83
TORONTO (C$)			
Rises			
Cognicase	28.25	+	2.25
Magellan Aero	8.65	+	0.75
Falls			
Computalog	18.00	–	2.25
Gndl Inds	2.80	–	0.45
Goldstream	6.10	–	0.60
Promis Sys	5.30	–	0.45

PARIS (FFr)			
Rises			
Fn de L'Odet	272.5	+	34.5
Omnicom	420	+	62
Sogeris	105	+	11.4
Falls			
Bqe Transatlnt	187.5	–	19.8
Maison et Cie	901	–	97
Nat de Navgtn	119.2	–	10.6
TOKYO (Yen)			
Rises			
Nitta	1340	+	80
Toko Elect	524	+	61
Toyo Chem	561	+	46
Falls			
Marusan	455	–	55
Nippon Denko	155	–	23
Tokyo Corp	301	–	34
HONG KONG (HK$)			
Rises			
First Pac	3.6	+	0.13
Hang Lung Dv	11.2	+	0.35
Falls			
Cheung Kong	49.9	–	1.1
HK & S Hotel	6.2	–	0.15
Hutch Whamp	49	–	1.5
SHK Props	52	–	1
BANGKOK (Baht)			
Rises			
Jutha Mrtme	8.3	+	1.4
Prudntl TS	13.25	+	3
Thai Setakij	20	+	4.5
Falls			
Alucon	80	–	8
Carpets Int	38	–	7
Secs One	15.5	–	4

New York & Toronto prices at 12.30.

Disney shake-up urged by institutions

Campaigners seek a more independent board and improved corporate governance

By Christopher Parkes in Kansas City

A campaign by institutional shareholders in Walt Disney to oust directors with close ties to chairman Michael Eisner gained ground at the US entertainment group's annual meeting yesterday.

A resolution demanding that the board be reconfigured with more independent directors had been expected to gain no more than a quarter of the vote. In the event, it won 35 per cent, roughly equivalent to all of the votes in the hands of institutional and other large shareholders.

The result is likely to encourage further attempts to persuade Mr Eisner to change his ways. It will also encourage activists to continue their campaigns to impose corporate governance standards on US companies.

The resolution was filed by the College Equities Retirement Fund, the largest pension fund in the US. Other institutional shareholders were urged to support it by investment advisers such as Proxy Monitor, which last week attacked the "rubber-stamp" configuration of the Disney board.

The outcome was a further condemnation by investment managers of Disney's boardroom policies, which came under fire at last year's annual meeting.

Then, Disney's army of enthusiastic individual shareholders thwarted efforts to rebuke the board for its lavish executive compensation policy, exposed by the $100m-plus severance package awarded to Michael Ovitz, former group president.

Presenting TIAA-CREF's resolution, Richard Schlefer, the fund's governance expert, said financial success did not eliminate the need for good corporate governance.

According to TIAA-CREF, which owns $800m-worth of Disney shares, only one in 17 of the largest companies in the US had a board less independent than Disney.

In the absence of an independent board, Mr Schlefer said, decisions on issues such as corporate succession, contests for control of the company and lawsuits might not be made in the best interests of shareholders.

CREF's attack targeted a group of directors, including Mr Eisner's attorney, his children's former teacher, an architect who had worked for the company and also designed Mr Eisner's home, and a former senator who is a paid consultant to Disney.

Sanford Litvak, chief of corporate operations, told the meeting the dispute was not over whether boards should be independent. But he took issue with TIAA-CREF's "unreasonably narrow and mechanical" definition of independence. It was "not a controversy we need or have sought", he said.

The annual meeting, held in Kansas City, attracted an audience of fewer than 1,500, compared with more than 10,000 who crowded a stadium in Anaheim, southern California, last year.

The meeting focused on the group's financial progress in the years since the contested board members had been elected. Mr Eisner pointed out that since he joined Disney in 1984 its stock had risen 2,344 per cent.


Kvaerner has secured a $1.12bn package of cruise ship orders from Carnival Corporation of the US. The deal, signed at the company's Helsinki shipyard (above), came as the Anglo-Norwegian group reported sharply increased profits Report, Page 17

SGL considers moving its HQ from Germany

By Graham Bowley in Frankfurt

SGL Carbon of Germany, the world's biggest maker of carbon and graphite products, plans to redraw its structure so it could relocate its headquarters abroad.

The step, part of a broader international push, will involve the creation of a management group with a separate legal status from the German parent.

SGL also intends to ask a shareholder meeting on April 23 to give it the power to buy back up to 10 per cent of its shares when German legal changes making this possible take effect this summer.

Mr Robert Koehler, chief executive, gave details of the planned reorganisation and share buy-back during an interview before US legal developments triggered a sharp fall in the company's share price yesterday.

On Monday a rival company in the US pleaded guilty to anti-competitive practices in the graphite electrode industry, one of SGL Carbon's biggest markets.

Showa Denko Carbon, the US subsidiary of Japanese group Showa Financing, agreed to co-operate with investigations by US authorities. The Justice Department said more prosecutions could follow, raising speculation that SGL could become the focus of investigations. In the interview Mr Koehler, who has been an aggressive critic of the German government and has urged German industry to restructure and become more global, said: "We are observing the German developments and if the government does not get the reforms right, we will consider moving our head office out of Germany. The German operations will be put on an equal footing with, for example, Italy, Spain, Poland. This is a further step in the evolution of the company."

SGL is one of only a few German companies which publish accounts according to US standards and was one of the first to list on the New York stock exchange. It will be only the second German company to seek to take advantage of legal changes on share buy-backs designed to open up the nation's capital markets. Metallgesellschaft, the industrial and trading group, said earlier this month that it might buy back shares worth up to DM500m ($275m).

"If in the long-run we do not have enough projects for growth we believe that buying shares back is a far more meaningful means of rewarding investors than so-called long-term dividend policies," Mr Koehler said. "We are looking at this seriously because we have a healthy balance sheet."

SGL Carbon shares closed yesterday at DM199.5, down more than 16 per cent.

Price fixing fears, Page 20

US chipmaker in $148m Taiwan deal

By Laura Tyson in Taipei

Taiwan Semiconductor Manufacturing (TSMC), Taiwan's biggest chipmaker, has secured a US$148m deal with National Semiconductor of the US to produce 10m central processing units – the "brains" of personal computers – per year.

Electronics analysts said the unprecedented agreement with TSMC, the world's biggest foundry, or contract, chipmaker, signalled a structural shift in the industry. Its shares closed T$8 higher yesterday at T$165 (US$5.02).

The deal, which represents about 12 per cent of global CPU output, marks the first time a leading international integrated device manufacturer has subcontracted out production of the commercially sensitive and technologically sophisticated CPU.

The trend toward outsourcing chip production has been gathering momentum in recent years but until now had been confined to lower-end, lower-margin chips. Taiwan has never produced CPUs, apart from a prototype.

The deal is a vote of confidence for TSMC's quality and technology standards and, if successful, could encourage other US and Japanese semiconductor makers to follow suit, analysts said.

"We have seen in the past that once Taiwan has proven itself a viable producer in other segments of the PC components industry, other companies have followed – even if reluctantly – because Taiwan is so cost-competitive," said Derek Tien, electronics analyst at Merrill Lynch in Taipei.

Analysts estimated that average production costs of Taiwan chipmakers are 10 to 15 per cent lower than those of US counterparts, because of factors such as tax structure, accounting methods and lower pay. Regarded as Taiwan's best-run chipmaker, TSMC is even more cost-effective.

National Semiconductor last year bought Cyrix, one of the biggest CPU makers after Intel of the US which controls about 80 per cent of the market. Cyrix has been aggressively going after the low-cost PCs expected to be a strong-selling segment of the market this year.

With downward pressure intensifying on PC retail prices, chipmakers are seeking ways to slash production costs. Outsourcing lower-end chips while continuing to produce higher-margin items in-house is one way.

Until now the main customers for Taiwan's thriving foundry-chip industry have been the "fab-less" chip design houses that lack in-house production capacity, or wafer fabrication plants. The potential of the foundry business rises sharply with the entry of National Semiconductor.

Barry Riley

London's love affair with continental Europe

Is Europe the safest place to invest in today's dangerous world? That is the impression given by the latest UK pension fund statistics. At the end of 1997, continental Europe accounted for 57 per cent of the overseas equity assets of the median fund, according to the Caps statistical service.

In fact, UK and continental equities represented 89 per cent of the equity portfolios. Certainly, there are theoretical arguments for reducing risks by matching domestic assets against domestic pension liabilities, and the UK is getting closer to Europe. But are these fund managers living in the real world, where the US accounts for 51 per cent of the World Index capitalisation?

No wonder the US investment institutions are taking a tilt at European pensions business. Goldman Sachs Asset Management has announced a marketing drive to take advantage of the vulnerability of the big UK pension fund managers. Two of the latter – Mercury Asset Management and PDFM – have come under US control through takeovers. Other US managers such as Fidelity and J.P. Morgan are also busily exploiting the perceived opening.

The Caps numbers admittedly reflect disproportionately the more extreme views held by the managers (such as PDFM and Gartmore) of smaller, more aggressive, funds. The rival WM Company tracks the biggest funds too, and its aggregate 1997 figures show that continental Europe represented a more modest 44 per cent of overseas equities, while the US accounted for 20 per cent rather than the 12 per cent seen in the Caps funds.

These allocations still represent huge bets against the World Index, of a kind that went alarmingly wrong last year. UK pension funds started 1997 with one fifth of a full index weighting in the US, and, in contrast, nearly four times the index weighting in Asia (excluding Japan). As a result, they underperformed the World ex-UK Index by either 12 or 13 percentage points, according to WM and Caps respectively.

> London will argue that its world view is less risky than the US one

The US and Asian bets both lost about 8 percentage points against the index return. True, these losses were partly offset by modest gains of 5 percentage points from the two other gambles that paid off – the overexposure to continental Europe and a modest Japanese underexposure. But managers also lost because of poor stock selection everywhere except in Japan.

What happens now? There is still the gamble that Wall Street will crash. After all, London's global managers pulled back a lot of relative gains from Tokyo's tumble in the early 1990s, through being heavily underweight in Japan. And although time is running out for them in the US, and 1997 proved a bad year, their average annual underperformance over five years against the World ex-UK Index is still only about 1 per cent.

They may make the reasonable point that many stock-market indices, far from representing prudent diversification, represent an undue concentration of risk. The World Index is largely a gamble on Wall Street, and a country index such as London's FTSE 100 is dominated by a small number of sectors and stocks, as was highlighted yesterday by the shock of the Glaxo-SmithKline merger breakdown.

London will argue that its world view is less risky than the US one, and it will pay off in the medium term, but it is being frustrated by the distortions created by freak inflows into US mutual funds.

But the US marketing men being unleashed by the likes of GSAM will say that the London institutions have become complacent through dominating their domestic market, and have become obsessed by their own risks against each other rather than those of their clients. Their styles have become too similar.

But it is curious that, when Europeans criticise the UK for looking to the US rather than the Continent, precisely the opposite is true of investment portfolios. London is full of Europhiles, after all.

International expansion in retail stores helps push earnings up 18%

Foreign outlets lift Wal-Mart

By Richard Tomkins in New York

A big increase in international profits helped Wal-Mart Stores, the world's biggest retailer, to report an 18 per cent surge in net earnings to $1.3bn for the fourth quarter to January 31.

Earnings per share rose by 19 per cent to 57 cents, beating Wall Street's consensus forecast of 55 cents, and the shares rose $13/16, or nearly 2 per cent, to $47 in early trading.

Although the international division is still relatively small, Wal-Mart has been striving to expand it. In December, the company took its first step into Europe with the acquisition of Germany's Wertkauf hypermarket chain for an undisclosed sum.

The German acquisition did not figure in yesterday's results. But even without it, operating profits from the international division rose from $65m to $177m in the fourth quarter, thanks largely to continued expansion in other territories. Revenues rose from $1.7bn to $3bn.

Wal-Mart said it had made particularly strong gains in Canada, a market it entered in 1994 through the acquisition of Woolworth's Woolco chain. The figures were also given a boost by the consolidation of the results from Mexico's Cifra chain, in which Wal-Mart took a controlling interest in September.

Wal-Mart's other international stores are in Argentina, Brazil and Puerto Rico, and it has joint venture or franchise operations in China and Indonesia.

In the US, Wal-Mart saw particularly strong gains from the opening of more supercentres, which combine the traditional out-of-town discount store with a grocery department.

"Customers continue to embrace the concept of one-stop shopping," the company said.

Fourth-quarter revenues for the group as a whole rose 15 per cent to $35.4bn.

For the full year, revenues rose 12 per cent to $118bn and net profits increased 15 per cent to $3.5bn.

Wal-Mart said its international division planned to add 50 to 60 retail units this year to the 603 already open, and would continue to evaluate international acquisition candidates.

In the US, the company said it expected to add 26m sq ft of retail floor space, with the opening of about 50 new Wal-Mart stores, 120 to 125 supercentres (including the conversion of about 90 existing stores), and 10 Sam's Club membership warehouses.

● Home Depot, a fast-growing US chain of do-it-yourself superstores, yesterday reported a 22 per cent increase in net profits to $307m, or 41 cents a diluted share, for the fourth quarter. Revenues rose 16 per cent to $5.7bn.

CSC asks court to block CA's bid

By Louise Kehoe in San Francisco

Computer Sciences, the computer services group, has filed a lawsuit against Computer Associates in an attempt to block its predator's $9.8bn hostile bid.

CSC, based in El Segundo, California, has alleged that the New York-based software group used illegal tactics to try to bully CSC executives into accepting a merger unfavourable to CSC. It also claimed it had lost $50m-worth of business as a result of CA's takeover bid.

In its lawsuit, filed in Los Angeles late on Monday, CSC accused Charles Wang, CA chairman and chief executive, of attempting to persuade Van Honeycutt, CSC chairman and chief executive, to accept unfavourable merger terms by offering the CSC executive $50m in stock options and a lucrative employment contract during a preliminary meeting in December.

Mr Honeycutt rejected the offer.

The lawsuit further alleged CA had engaged in "an unfair, unlawful and fraudulent scheme" to try to acquire CSC at less than fair value. CSC claimed that its customers had been "improperly" contacted by CA and that CA was dissuading "prospective employees" from joining CSC.

CSC has asked the court to stop CA proceeding with its bid and is also seeking damages.

CA was not immediately available for comment.

The lawsuit is the latest move in a bitter battle for control of CSC, following CA's announcement two weeks ago that it was offering $108 a share in cash to acquire the services group.

Last week, CSC's board rejected the offer and CA launched a tender offer, taking its bid directly to CSC shareholders. CSC responded that the bid undervalued the company, and Mr Honeycutt also said the bid was shaking the confidence of corporate customers that have long-term "outsourcing" contracts with CSC.

CA's Charles Wang (left) is accused of offering CSC's Van Honeycutt $50m stock options

Under these contracts, CSC takes over the management and administration of corporate IT systems. Several of the multi-million dollar contracts have "get out" clauses that allow customers to cancel in the event of a CSC takeover or merger.

Moreover, CSC said it feared that a takeover by CA, one of the largest developers of business software, would compromise its ability to sell products from rival software groups.

CSC is expected to respond formally to CA's tender offer in the filing with the Securities & Exchange Commission by next week.

Shares of both CSC and CA dropped yesterday on news of the lawsuit. CA was trading at $45 3/8 in mid-session, down from Monday's close of $47¼. CSC was at $102, down from $102⅝.

Downgrades knock Advanta shares

By John Authers in New York

Shares in Advanta, the Pennsylvania-based consumer finance group, dropped more than 30 per cent in early trading yesterday as the market reacted to downgrades by ratings agencies following the sale of its credit card portfolio to Fleet Financial of Boston.

By midday yesterday, the company's shares were down $6 11/16, or 22 per cent, at $24⅛.

Advanta had been the ninth largest credit card issuer in the US, and doubled the size of its portfolio in both 1994 and 1995 on the back of an aggressive strategy of marketing cards directly, and offering "co-branded" cards with commercial companies such as retailers.

It used cheap financing from the asset-backed securities market.

However, it announced in March last year that it would suffer losses because of record levels of personal bankruptcies and high levels of bad debts in its own portfolio, and embarked on a strategic review.

The agreement to sell the credit card business to Fleet was announced last October, but was only completed at the end of last week.

Advanta also completed a tender offer last week to buy $850m in stock at $40 a share.

Fleet said it had paid a premium of $500m for the portfolio, which had about $12bn in total receivables, while Advanta said the deal had a total value of $1.3bn.

With the sale of its credit card portfolio, Advanta will concentrate on mortgage lending and consumer finance, particularly for people with poor credit histories.

Standard & Poor's, the largest US credit rating agency, said its downgrade of the company's senior unsecured debt from BB to BB- reflected the company's new business profile as "a sub-prime mortgage company operating in an increasingly competitive market".

It said the agency had on-going concerns about the industry group as a whole.

However, it added that Advanta's position as the largest third party servicer of such mortgages gave it a "meaningful" revenue stream relative to its peers, and that its high use of penalties to deter early payments was a strength.

Derek Sword, analyst at Keefe, Bruyette & Woods, the brokerage, said: "Traders had definitely expected the share price to move down like this – Advanta is now rather a huge home equity lender."

Lear in line for Delphi purchase

By Nikki Tait in Chicago

Lear Corporation, one of the biggest makers of seating and other interior components for the automotive industry, emerged yesterday as the preferred buyer of Delphi Automotive System's seating business. Delphi is the automotive parts arm of General Motors.

GM and Lear said they had signed a letter of intent that would allow Lear to negotiate exclusively for the purchase of the business, and that this would probably lead to a final sale during the second quarter of 1998.

No price was indicated, but Lear said it would almost certainly be "material" and be disclosed when the deal was finalised.

The Delphi seating unit has annual sales of about $1.2bn and employs some 7,000. It is thought to be the fifth largest automotive seating business worldwide, with facilities in nine locations, including five outside the US.

Assuming the deal is completed, it will consolidate Lear's position in the automotive interiors sector, where it battles for top slot with Johnson Controls. Although seating is still the largest portion of Detroit-based Lear's business, it has been diversifying aggressively into other interior components, and these now account for about 35 per cent of the total.

The Delphi seating unit was one of three parts businesses put up for sale by GM last September, as part of a strategy to shed loss-making or marginally profitable units and concentrate on "core" segments where it had market leadership position. Overall, the three businesses had sales of about $2bn and were loss-making.

Last week, Delphi announced that the hot coil spring business, which employs about 200, was being sold to the privately owned Walton Johnson group in Dallas. The GM parts company has also said that it expects to announce a buyer of its automotive lighting business within the next few weeks.

Competition for the seating unit is thought to have been fairly intense with a handful of companies selected for the final negotiations.

Apart from Lear, these are believed to include Johnson Controls and Magna International.

AMERICAS NEWS DIGEST

DMG warns on employee bonuses

Deutsche Morgan Grenfell this week began informing North American employees of 1997 bonuses, after warning staff in an internal memo on Friday that "while we have tried to demonstrate fairness and remain competitive in our compensation decisions, your 1997 total compensation will reflect the overall bank results, the results of the division you are a part of and your individual performance".

The memo was written by Carter McClelland, who runs the North American business, in response to press reports.

The memo confirms that a portion of 1997's compensation will be in the form of stock. The bank has also set up a 1998-2000 equity incentive award programme, according to the memo.

Sources at DMG said that around 100 jobs had been cut in North America, of which 40 were in Canada. The Canadian natural resources sector remains intact. These job losses are part of the restructuring recently announced by DMG's parent, Deutsche Bank, which will involve 9,000 job cuts worldwide over three years.

Tracy Corrigan, New York

■ GENETIC ENGINEERING

Monsanto to pay cotton farmers

Monsanto, the pharmaceuticals, biotechnology and agri-products company, confirmed yesterday that it was paying compensation to settle complaints brought against it by several dozen farmers in the Mississippi Delta, who claimed that the company's genetically engineered cotton seed resulted in inferior yields last year.

The company, which has always maintained that the problem was an isolated incident and probably the result of extreme weather conditions, said it had been working in recent months to calculate the shortfall in yields, compared with other recent crops.

The total monetary compensation was not disclosed but is understood to be a few million dollars.

Nikki Tait, Chicago

Baxter in $189m biotechnology acquisition

By Victoria Griffith in Boston

Baxter, the Illinois-based pharmaceutical company which has annual sales of more than $5bn, is purchasing the biotechnology group Somatogen for $189m in a move to strengthen its position in the market for substitute blood.

"This demonstrates our commitment to being on the leading edge of technology in the blood substitute field," said Harry Jansen Kramer, Baxter president. While both companies are developing artificial blood to replace real blood in patient transfusions, their research strategies differ.

Baxter extracts haemoglobin – the red blood cells responsible for moving oxygen round the body – from human blood, then purifies it. Somatogen uses recombinent technology to grow its own artificial haemoglobin from genetically altered cells.

Baxter, whose technology is more advanced, will apply for regulatory approval in the US as early as next year. In the long run, however, Somatogen's technology may substantially reduce production costs.

Substitute blood has a number of advantages. Because it is pure haemoglobin, patients do not have to be matched for blood type. The product may also provide oxygen to the body far more swiftly than normal blood, making it a better alternative for stroke and heart attack victims.

Artificial blood also has a shelf life of at least six months, as opposed to six weeks for normal blood.

Baxter's main competitor in artificial blood is the pharmaceutical group Northfield Laboratories, which is also in the final stages of product development.

Morgan memo spells out bank's dilemma

"Stronger financial results must be a priority," wrote Douglas "Sandy" Warner, chairman of J.P. Morgan, in a memo that accompanied the announcement this week of a 5 per cent reduction in the US bank's workforce.

Mr Warner also noted that "our stock is lagging competitors". His message – that after nearly a decade of building Morgan's investment banking business, management is unhappy with its financial performance – is plain.

Analysts and shareholders have also been growing increasingly concerned. Disappointing fourth-quarter earnings helped crystallise worries that the bank has not been producing adequate revenues to justify an expensive infrastructure.

Return on equity last year was just 14.2 per cent, pushed down by a poor 9.7 per cent in the fourth quarter, while rivals such as Merrill Lynch and Morgan Stanley Dean Witter produced returns on equity of more than 20 per cent last year.

As Mr Warner pointed out: "Our rate of expense growth has exceeded revenue growth in three of the past four years."

In addition, Morgan recently lost its triple-A credit rating from Moody's, and its triple-A rating from Standard & Poor's is under review.

While this may ultimately be good news – some analysts believe that keeping a triple-A rating is costly and unnecessary – Morgan is clearly experiencing growing pains as it transforms itself into an investment bank, although officials note it has remained consistently profitable while building a business from scratch.

The firm has also maintained its reputation as it has expanded its franchise, and has managed to win much high profile business – it is, for example, defending Computer Sciences against a hostile bid from Computer Associates.

But analysts say it faces the same problem as other second-tier competitors: its overheads are as high as those of the "bulge bracket" firms, but its revenues are not.

J.P. Morgan's overheads are as high as those of the 'bulge bracket' firms, but its revenues are not

News of the cost-cutting move was welcomed by analysts yesterday, as the stock rose more than 4 per cent. But analysts warn that while it may help to boost profitability in the short term, the move does not solve longer-term strategic problems.

"They need a lot more market share in their global equity and mergers and acquisitions businesses," says Art Soter, financial services analyst at Morgan Stanley Dean Witter. "They are sticking with their strategy [of organic growth], but the clock is running because the global wholesale industry is consolidating rapidly and their market share is not sufficient to make them global leaders."

Some analysts believe that Morgan may have to make acquisitions to speed its progress, and Mr Warner noted in his memo that "strategic combinations are also an option". But the cost cuts may have bought management extra time to pursue its strategy.

"I don't think they are under the gun," says Michael Lipper, financial services analyst at Lipper Analytical. "They have a loyal group of shareholders who would permit them to underperform for a long time." Mr Lipper adds, though, that he also believes "some sort of deal is inevitable".

Mr Soter, however, believes that Morgan will resist a sizeable merger. "Their culture is so distinctive and they are so intent on preserving it, that it makes them somewhat resistant to doing acquisitions that require integration."

Mr Lipper says concerns about preserving its culture could lead J. P. Morgan to look at acquisitions outside pure investment banking, for example in the trust business.

But management's enthusiasm for independence should not be underestimated. "It remains our conviction that no strategic merger yet envisioned matches the promise of our own growth strategy, if we execute it successfully," said Mr Warner.

"It's our challenge to turn [the value we have built over the past decade] into superior performance for clients and superior results for shareholders."

Tracy Corrigan

Lex, Page 14

Big US order for buoyant Kvaerner

By Tim Burt in Stockholm

Kvaerner, the Anglo-Norwegian engineering and construction group, yesterday underlined the revival of the international cruise ship industry by announcing a $1.12bn package of orders from Carnival Corporation, of the US.

The company – which yesterday reported sharply increased full-year profits – said the latest order from Carnival, the world's largest cruise operator, took the value of shipbuilding contracts and options won over the past four weeks to almost $2bn.

Buoyant consumer demand for cruises has prompted a recent surge in orders from the leading operators – among them Royal Caribbean of the US, P&O of the UK and Carnival. Some 30 vessels have been ordered from European yards for delivery over the next four years, worth a total of almost $10bn.

Under the latest Kvaerner deal, signed at the company's Helsinki shipyard last night, Carnival has ordered one 82,000-tonne liner, with options on a further two vessels at a cost of $375m each.

The deal was announced after the Anglo-Norwegian group unveiled a jump in pre-tax profits last year from NKr750m in 1996 to NKr1.51bn ($201m) on sales of NKr73.6bn, up from NKr58.6bn.

In spite of the increase, Erik Tonseth, chief executive, expressed dissatisfaction at the full-year outcome.

Although the figures were flattered by one-off gains of NKr592m on property disposals, operating profits rose from NKr1.03bn to NKr1.78bn.

Of the group's six core divisions, Mr Tonseth said he was still dissatisfied with continuing losses in the pulp and paper division – although reduced last year from NKr522m to NKr77m – and a disappointing performance in construction, where the group incurred losses of NKr44m, against gains of NKr110m in 1996.

That was partly offset by a return to profit in the oil and gas division and improvements in process engineering and metals. These divisions climbed from NKr89m to NKr146m and from NKr95m to NKr161m, respectively.

Shipbuilding remained the most profitable division, and the order intake stood at NKr14.1bn at the year-end. However, loss provisions of NKr200m on current contracts contributed to reduced operating profits of NKr819m, against NKr1.1bn last time.

Jan Magne Heggelund, finance director, said the balance sheet was also overstretched, in part because of increased working capital costs and borrowings incurred on the NKr9bn acquisition of Trafalgar House in 1996.

But he said the figures – including maiden full-year contributions from Trafalgar House – signalled that the restructuring of businesses inherited from the UK conglomerate was largely complete.

Earnings per share rose from NKr19.72 to NKr28.22.

An dividend of NKr7, up from NKr6.50, is proposed.

Televisa heir struggles with legacy of debt

When Emilio Azcárraga Jean came into his father's estate last April, he inherited Televisa, the largest media company in the Spanish-speaking world.

However, his father's personal debts, believed to be in excess of $750m, transformed the 29-year-old heir into one of the most vulnerable and indebted chairmen in Mexico's corporate history.

According to Mexican bankers, those obligations have made Mr Azcárraga a prisoner of his creditors, who are demanding escalating fees to roll over the debt of his father's estate.

Mr Azcárraga's indebtedness has also depressed Televisa's share price, as the market is betting that, sooner rather than later, he will be forced to part with a substantial chunk of his shares.

Mr Azcárraga's father, Emilio "El Tigre" Azcárraga Milmo, fell heavily into debt in 1994, when he bought out his sisters to build a controlling stake in Televisa.

The timing was disastrous. El Tigre acquired his sisters' shareholding when Televisa's American Depositary Receipts were trading at close to $60. A year later, the peso had been devalued, Mexico's stock market had crashed, and Televisa's ADRs had sunk below $13.

To make matters worse, Televisa has not paid dividends since 1994 – a critical source of income that would have allowed El Tigre to service his debts.

When Mr Azcárraga Sr. died suddenly of cancer last April, his son inherited 52 per cent of Televicentro, the holding company which owns 38 per cent of Televisa and controls 100 per cent of the voting stock. The other shareholders in Televicentro are the Mr Azcárraga's sisters and stepmother; Alejandro Burrillo, his cousin; and the Alemán family.

Mexican bankers say Televicentro owes $1.1bn to Mexican and foreign banks. About $500m is in short-term bridge loans, extended last autumn by Morgan Stanley and Goldman Sachs, the US investment banks, while $485m is in longer-term loans with Mexican banks, including Banamex, Bancomer and Inbursa.

In addition, Mr Azcárraga owes $250m to his aunt, Laura Azcárraga de Wachman, who is demanding immediate payment.

According to bankers in Mexico City, Morgan Stanley and Goldman Sachs provided the bridge loans on the understanding that they would be repaid quickly via a secondary share offering of part of Mr Azcárraga's equity in Televisa. To seal the agreement, the US banks were made co-leaders of the placing.

The Asian financial crisis, however, dashed Mr Azcárraga's plans for a November offering. Turmoil in emerging markets caused Televisa's ADRs to drop from $40 to just below $30 – wiping out about $600m of Mr Azcárraga's net worth.

Although the stock has since recovered to $35, valuing Televisa at $5.4bn, Mr Azcárraga is said to be reluctant to sell below $42.

Time, however, could be running out for him. Morgan Stanley and Goldman Sachs are reported to be anxious to recover their money. "Mr Azcárraga has used a carousel of banks to roll over debt," one banker says. "Each time, the loans get more expensive, but it cannot go on forever. He will soon run out of banks who are willing to lend to him."

Compounding his problems are the boardroom battles that followed his father's death, and the little faith investors have shown in his leadership.

Last week, Mr Azcárraga took an important step towards restoring investor confidence by appointing a professional chief financial officer, Gilberto Pérez Alonso, widely respected for his work at Cifra, a successful and conservatively managed retail group.

Analysts say Mr Pérez Alonso's first task will be to talk up Televisa's share price with an aggressive cost-cutting programme – a move which would maximise the returns of a secondary share offering. Investors have been disappointed by Televisa's inability to fend off competition from TV Azteca, a smaller rival.

"TV Azteca is a lean, mean fighting machine, whereas Televisa has a great franchise – it only has to put its assets to better use," says Tim Baker, of SBC Warburg in Mexico City. "Mr Pérez Alonso will be under pressure to deliver results quickly to help Televisa's controlling shareholders sort out their problems."

Mr Baker estimates TV Azteca generated $250m in cash flow last year on sales of $450m. By contrast, Televisa's networks, which command two-thirds of Mexico's advertising market and double TV Azteca's audience, are estimated to have generated only $220m last year. Televisa's other businesses, including magazine publishing, cable and satellite television, and radio broadcasting could raise the group's cash flow to $317m, Mr Baker says.

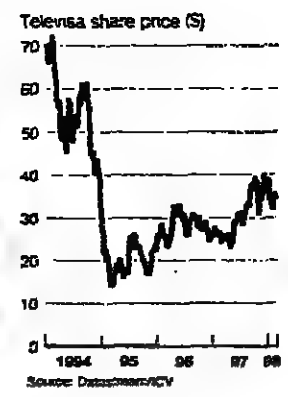
Last month, Miguel Alemán Velasco, one of Mr Azcárraga's senior partners, said a secondary share offering could take place in March. Since then, however, Televisa has declined to confirm whether a secondary share offering is imminent.

Leslie Crawford

This is the fourth in a series on Latin American media markets. Previous articles appeared on January 30, January 3 and December 19.

Poisoned chalice

Emilio Azcárraga Jean, chairman and chief executive



Source: Datastream/ICV

Emilio Azcárraga Milmo, late television tycoon

Chinese eye SE Asia buys

By James Kynge in Beijing

Li Xiaohua, one of China's top entrepreneurs, is looking to acquire companies in south-east Asia and South Korea, taking advantage of the relative strength of China's currency.

Mr Li's initiative is one of the first signs that some Chinese businesses are searching for ways to turn Asia's financial crisis to their benefit.

A senior economic official confirmed the trend, saying that some state-owned companies were being encouraged to invest in the region when it becomes clear that the worst of the crisis has passed.

Mr Li, who is chairman of the privately held Huada International Investment Group, said he was interested in acquiring either high-technology groups or exporters of commodities such as palm oil and rubber, for which there was a ready market in China.

"We are very interested in the opportunities thrown up by the Asian crisis. We have already sent people to Korea and Thailand to search for opportunities," said Mr Li, who owns 51 per cent of Huada, a property and tourism conglomerate with fixed assets worth more than $500m, according to the company's own unaudited figures.

He said his company had employed Wall Street bankers to help find opportunities in south-east Asia. Any acquisition would be financed by borrowing in either US or Hong Kong dollars, he added.

Both China's currency – the yuan, which is not fully convertible – and the Hong Kong dollar have held steady against their US counterpart despite sharp depreciations elsewhere in the region. This, coupled with the fact that some companies in Asia are in need of financial rescue, has presented clear opportunities.

"For example, China buys a lot of palm oil from Malaysia, so I am going there to see if there are any Malaysian palm oil companies which are going bust," said Mr Li.

The economic official, who declined to be identified, said commodities and high technology were also the two areas in which China's state-run companies were seeking opportunities.

But, he added, recent rioting against ethnic Chinese in Indonesia had reinforced caution among state-owned companies. Whereas Thailand and Korea had perhaps turned the corner in their crises, this was not necessarily true of other countries in the region, the official said.

Mr Li is one of a generation of entrepreneurs who started out in the early 1980s as small businessmen. He began with an iced-drink stall, then bought a kung-fu film business and was eventually made the sole sales agent in Japan for a popular Chinese hair-restoring tonic.

He made most of his fortune, however, from borrowing to buy property and stocks in Hong Kong at low prices following the 1989 crackdown on political protests in Beijing. Since then, he has concentrated on businesses within mainland China.

Canadian banks lift first-quarter profits

Bank of Montreal reported net income of C$361m (US$254m) for its first quarter to January 31, up 12 per cent from C$322m in the same period of 1997 despite a decline in investment banking, Our Financial Staff writes.

The bank, which recently announced plans to merge with Royal Bank of Canada, said that income growth was driven by revenue growth, good expense management and low loan losses.

Fully diluted earnings per share were C$1.27, up 9.5 per cent from C$1.16 last year. Return on equity was 17.3 per cent, compared to 17.7 per cent in the first quarter of 1997.

Meanwhile, Bank of Nova Scotia reported an 11 per cent rise in net income in the same first quarter, from C$297m in the same period last year to C$331m. The bank said it returned "solid results across most businesses".

Peter Godsoe, chairman and chief executive, said he expected earnings to increase "significantly" over the next few years.

Earnings per share rose from 57 cents to 63 cents. However, return on equity slipped from 16.2 per cent to 15.2 per cent.

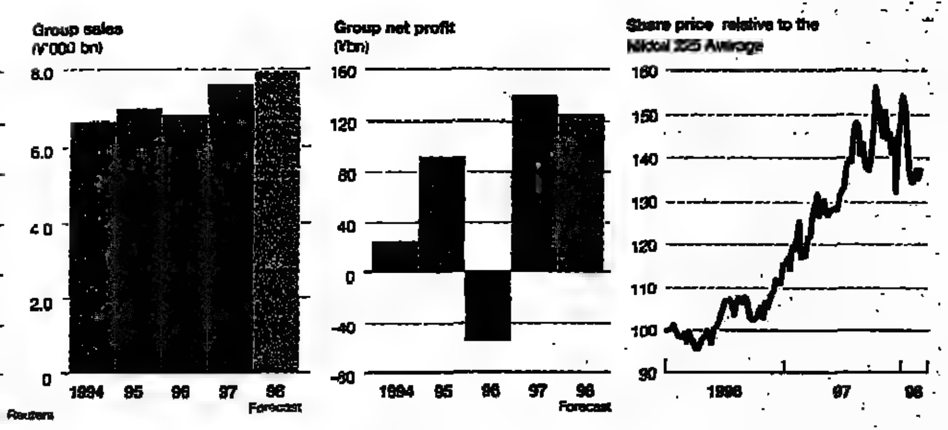
Sluggish quarter at Matsushita

By Michiyo Nakamoto in Tokyo

Profile: Matsushita

Market value	$31.1bn
Main listing	Tokyo
Historic P/E	44.13
Gross yield	0.66%
Earnings per share	*¥18.46
Current share price	¥1,660

* 3 months to Dec 31 1997



Sources: Tokyo Kaizai; Datastream/ICV; Reuters

The impact of the Asian crisis and weak consumer spending in Japan were highlighted yesterday in Matsushita's third-quarter results, which showed a decline in profits on moderately higher sales.

For the three months to the end of December, Japan's largest consumer electronics group reported a 2 per cent rise in group sales to Y2,082.9bn ($16.3bn). The relatively flat figure was blamed mainly on lower domestic sales, which fell 4 per cent.

Pre-tax profits for the quarter fell 6 per cent to Y97.1bn, while net profits declined 14 per cent to Y39bn.

As a result of the performance, Matsushita said full-year results would not be as good as it had forecast. Sales for the year are expected to be only 3 per cent above last year's figure, at Y7,870bn, compared with an earlier forecast of Y7,950bn.

Pre-tax profits for the full year are forecast to be Y351bn, rather than the Y372bn expected, while net profits are projected to total Y124bn rather than Y152bn. Pre-tax profits will be 6 per cent above last year, but net profits will fall 10 per cent.

Matsushita said it was hurt by weak domestic consumption in the quarter, which damped demand for big-ticket items such as air conditioners and refrigerators.

Meanwhile, the weakness of domestic car production affected the company's sales of audio products for the car industry.

In overseas markets, the currency turmoil in south-east Asia has forced the company to increase prices by 10-25 per cent in Thailand, for example, further reducing demand.

In contrast, North American and European markets were buoyant and helped lift Matsushita's overseas sales 10 per cent in the period, despite the Asian crisis.

Mobile GSM phones were particularly sought after in Europe, while personal computer peripherals, commercial video systems and fax machines also saw strong demand in North America.

Matsushita is cutting its capital investments for the year to Y450bn, compared with a previous estimate of Y470bn, because of a Y10bn decline in semiconductor-related spending and a further Y10bn fall in overseas investments.

HK groups shrug off Moody's move

By Louise Lucas

Moody's Investors Service, the US credit rating agency, yesterday downgraded its outlook for two of Hong Kong's biggest companies, Hutchison Whampoa and Sun Hung Kai Properties.

The move, which follows the agency's downgrade of financial ratings for Hong Kong and China last week, was played down by the companies. But one politician and business leader criticised Moody's, saying it had lost so much credibility that little attention was paid to its views.

Hutchison Whampoa, the Hong Kong conglomerate controlled by Li Ka-shing, the tycoon, said the change in its long-term foreign currency outlook from stable to negative was simply in line with that for the sovereign.

"We are comfortable that the revision is purely consequential on the agency's recent revision of its outlook for the Hong Kong special administrative region and does not reflect any adverse change in Hutchison's own credit fundamentals," the company said.

Both Hutchison and Sun Hung Kai Properties pointed to their strengths, including strong balance sheets and liquidity.

"The group has long maintained a conservative financial policy and low levels of debt. The change in SHKP's rating will not affect the group's operations," Sun Hung Kai said.

But Henry Tang, a member of the advisory cabinet to Tung Chee-hwa, Hong Kong's leader, said Moody's had lost credibility in the way it failed to separate Hong Kong from China in assigning ratings to the territory, adding that "we just don't pay any attention to them any more."

The ratings agencies have been widely criticised for being reactive rather than forward-looking during the Asian crisis, and Hong Kong has tended to shrug off their recent pronouncements.

Last Friday, when Hong Kong's short-term credit ratings were cut from Prime-2 to Prime-1 and the outlook for long-term foreign currency ceilings for bonds and bank deposits was reduced, the stock market's benchmark Hang Seng index closed slightly higher and money market interest rates remained broadly flat.

Toshiba plans new chip plant

By Michiyo Nakamoto

Toshiba, one of Japan's leading producers of semiconductors, is spending Y10bn ($78m) on setting up a new assembly plant in Japan to meet growing demand for advanced memory chips.

Production of semiconductor memory chips, which has been carried out at two plants in Japan, will be concentrated at Toshiba's facilities in the Mie prefecture in central Japan.

As a result of the shift and the new assembly plant, Toshiba will be able to increase production of advanced 64-bit dynamic random access memory chips from 250,000 this month to 8m by the end of the year and 10m by March next year.

The fourfold increase in output of 64-megabit D-Rams comes as Toshiba shifts production away from current generation 16-megabit D-Rams.

Toshiba has informed customers that it will quit producing 16-megabit D-Rams by the end of March 1999.

The shift is part of a trend among Japanese semiconductor makers which reflects the plunge in 16-megabit prices.

Japanese semiconductor makers, which are dependent on D-Rams for a considerable proportion of their sales, have been forced to revise their profits forecasts as a result of the collapse in prices.

● Toshiba has invested an initial $40m to start producing personal computer monitors in the US for sale to US computer makers.

The company already produces colour display tubes for televisions in the US, but this will be the the first time that it has manufactured PC monitors.

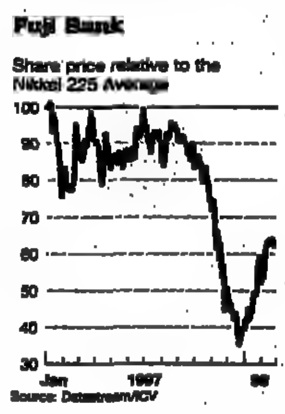
It will start making 17-inch mini-neck colour display tubes and standard neck 29.1mm colour display tubes from August, it said.

Yasuda link prompts cut in Fuji Bank rating

By Gillian Tett in Tokyo

Fuji Bank

Share price relative to the Nikkei 225 Average



Source: Datastream/ICV

Moody's, the US credit rating agency, yesterday downgraded the debt of Fuji Bank, one of Japan's largest, amid new fears about its capital strength.

The move is likely to renew pressure on Fuji, which saw its share price slide late last year after the collapse of Yamaichi Securities, a former ally.

The downgrade, announced shortly before the stock market closed in Tokyo yesterday, triggered heavy selling of Fuji's shares. The stock fell Y39 to close at Y880.

The decision by Moody's leaves the bank's financial strength at A3, compared with its previous level of A1. Although this is well above "junk bond" status, the rating change comes at a sensitive time for the bank, which has been fighting to convince the markets that it has a strong financial future in spite of lingering problems at some of its business allies.

Moody's blamed the downgrade in part on the bank's recent decision to participate in a rescue of Yasuda Trust, another ally of the "Fuyo" corporate group based around Fuji.

Fuji announced earlier this month it would contribute about half of a Y100bn ($782m) capital injection into Yasuda Trust, which holds large levels of bad loans. Fuji is expected to absorb the group into a holding company structure.

"Yasuda Trust, in Moody's opinion, has very substantial levels of impaired assets and limited earnings power," the agency said, adding that it would keep Fuji's rating outlook on negative because of its links with Yasuda. "The strategic rationale for these steps is not compelling, given the possibly contingent risks associated with Yasuda Trust."

Moody's said its move had also been triggered by the recent announcement that Fuji planned to sell part of its stake in Heller Financial, its US subsidiary.

Fuji said the downgrade was "regrettable" and insisted Yasuda Trust had a viable future following the Y100bn capital increase.

Moody's is also reviewing the ratings for Dai-Ichi Kangyo Bank and Tokyo Mitsubishi, currently at Aa2 and A1 respectively.

Regent Pacific buys into Korean broker

By Louise Lucas in Hong Kong

Regent Pacific Group, the Hong Kong-listed financial services group, has spent US$10m to acquire joint control of a Korean brokerage – the first step of an expansion drive within Asia.

The group, which withdrew from the Asian fund management business two years ago, says it is now embarking on a "significant expansion" of its Asian business to capitalise on opportunities thrown up by the regional financial crisis.

Peter Everington, executive director, said other commitments included staff recruitment and further acquisitions.

The group is now in negotiations to acquire a fund management business in Hong Kong, and is launching distressed asset funds.

Its first deal sees the company acquire 22.3 per cent of Daeyu Securities, a medium-sized Korean domestic brokerage with 18 branches.

The Lee family, who sold the shares to Regent Pacific, will retain an equal holding.

Mr Everington said the acquisition was a good investment – he estimated its tangible cash value at double the current share price.

But he added that the reason behind the purchase was to inject Regent Pacific's strength into the Korean operation.

"Around the region at the moment, being a foreigner has turned into something magic," he said.

"You are seen as strong, and in many countries people are suspicious of their own financial structure, for example in Japan."

He said Daeyu Securities was an excellent platform for building funds.

"One of the first things we will do is show how strong the balance sheet is. We will write off the bad stuff, and start to run it on a more Western-style accounting basis.

"It is very over-capitalised. Regent Pacific will have the management contract to run it, and we will get out of businesses we see as dud, and refocus."

Regent Pacific is one of a number of financial services groups starting to capitalise upon the Asian financial crisis by buying up operations in the region.

Mr Everington said US funds were still looking for investments in Asia, creating opportunities for debt-to-equity conversions and other restructurings.

"There are very few people who are going to have the credibility to manage money on the turnaround," he said.

ASIA-PACIFIC NEWS DIGEST

Weak ringgit hits Telekom

Telekom Malaysia's net profit fell 2.7 per cent to M$1.83bn (US$486.7m) last year as competition intensified and the sharp drop in the value of the Malaysian currency amid the Asian economic crisis took its toll.

The country's main telecommunications provider reported yesterday that its foreign exchange losses totalled M$235m last year while interest costs amounted to M$340m.

The weak ringgit has been especially hard on companies with debt denominated in foreign currency. Telekom said its total loans at the end of last year were M$7.8bn, of which M$2.2bn was in ringgit and the remainder in US dollars.

Telekom has been cutting costs at home while increasingly venturing abroad to offset increased domestic competition.

Analysts said the company might emerge from the crisis in better shape than its competitors, as the smaller groups found it increasingly expensive to import equipment to build up operations.

Telekom is optimistic. "The group believes that the economic situation will recover and that there will be ample opportunities for Telekom Malaysia to grow in the domestic market, which will be augmented by our overseas investment," said Mohamed Said Mohamed Ali, chief executive.

Sheila McNulty, Kuala Lumpur

■ CARS

Toyota takes over Tokyo dealer

Toyota is to take control of its Tokyo dealer in an attempt to boost sagging sales in the Japanese capital. Toyota's dealer in Tokyo will become a fully owned subsidiary of the carmaker, which owns about 57.7 per cent of the company.

The move is intended to support the Tokyo dealer's activities and reflects the fierce competition faced by Japan's largest carmaker, particularly in the nation's capital. Consumers in Tokyo have been attracted by the growing number of foreign cars and new, trendy models from rivals such as Honda.

Toyota's sales in the Tokyo market were stagnant at about 26,750 units last year, compared with 26,235 units the year before. Toyota's share of the Tokyo market, at 38.4 per cent, is lower than its overall share in Japan of 39.2 per cent. Toyota aims to provide the dealer with further funds to support marketing, store relocations and facility upgrades to boost its share of the capital's market.

Michiyo Nakamoto, Tokyo

■ AIRLINES

PAL sees 4bn pesos loss

Philippine Airlines expects to lose more than 4bn pesos (US$99m) in 1998, compared with earlier expectations of breaking even which had hinged on a significant refleeting and modernisation programme. The airline blames the regional economic turmoil.

Jaime Bautista, PAL senior vice-president and chief financial officer, projected bigger losses for this year than in 1997. PAL reported a net loss of 4.7bn pesos for the nine months to December 31. It pointed to foreign exchange losses and high financing charges. Mr Bautista said: "When we made our projections last year, we didn't anticipate an economic crisis. We were looking forward to a good year." The airline had previously predicted it could turn around years of losses to break even in 1998 and earn 2bn pesos in 1999.

PAL had embarked on a $4bn refleeting programme and acquired 36 new aircraft. "For now, all projections will have to be revised," Mr Bautista said. Last week it announced it would defer until 2003 the delivery of nine aircraft – six Boeings and three Airbuses – due in 1999. PAL is also terminating from next year its leases on four A300-B4s, five B737s and all B747-200s. PAL had already taken delivery of 20 of the 28 Airbuses ordered and will take delivery of five more this year.

Abby Tan, Manila

■ SOUTH KOREA

Production halts at Hyundai Motor

Hyundai Motor, of South Korea, said it would stop production until March 6, apart from the Atos and Starex models. It blamed the move on sluggish sales and rising inventories. Hyundai now has 45,000 cars in stock, with January sales at about 30,000 units, it said.

Earlier the Maeil Business Newspaper quoted a Hyundai employee as saying Hyundai has halted production of luxury cars such as Grandeur and Dynasty since February 4 because of the lack of demand, and that it was not certain when production would resume.

AFX-Asia, Seoul

Stock market gains help Cathay Life jump 77%

By Laura Tyson in Taipei

Net profits at Cathay Life, Taiwan's biggest insurance concern, jumped 77 per cent in 1997 from the previous year, chiefly because of stock market gains and the country's economic recovery.

The company also benefited from a regulatory change in July 1997 allowing the sale of life assurance policies for children under the age of 14, previously banned by the finance ministry.

Despite its reputation as traditional and unexciting, Cathay's dominance in the life assurance sector ensures that it will continue to be a cash cow for its owner, the reclusive Tsai Wan-lin, whose worth is reckoned at US$7.7bn – putting him among Asia's richest men.

The company posted net profits of T$18.5bn (US$563m) on sales of T$278.4bn last year, slightly above expectations. In 1996, Cathay reported net profits of T$10.4bn on revenues of T$243.2bn.

The board of directors plans to issue a dividend of T$4.5 a share for 1997. The dividend will include T$2.5 in cash and a stock dividend or bonus issue of T$2, with the company handing out 200 shares for every 1,000 shares held.

The dividend needs final approval by shareholders at a meeting scheduled for April 23.

Cathay reaped some 65 per cent of its net profits last year from Taiwan's stock market rally, but analysts cautioned that the company keeps hidden reserves to smooth out results.

However, the company's core life business has seen its market share fall from nearly 50 per cent a few years ago to 37 per cent of existing total premiums last year. Less nimble and innovative than its smaller and more aggressive competitors, Cathay's share of new business is 28 per cent.

Life assurance policies for children have proved to be popular for their tax benefits and as an investment. More than 2m policies have been sold and total market size is estimated at 5m.

Earnings growth should continue to be strong this year and next because of rising interest rates, although stock market gains may be lower than in 1997. The only uncertainty facing the company is that it must comply with recent employment laws by April, forcing it to set aside funds for pensions and overtime.

Taiwan's life assurance market will see steady premium growth at between 10 per cent and 15 per cent a year for some time, analysts said. At 80 per cent, the market penetration rate – calculated by dividing total premiums by population – is low against Japan at 450 per cent and the US at 140 per cent.

ANZ cuts workforce by 1,700

ANZ Banking Group, one of Australia's big four banks, is to cut its workforce by 1,700 under a project to make branches more efficient, AFX-Asia reports from Sydney. In the 1996-97 financial year, ANZ cut its Australian workforce from 23,727 to 21,113, a reduction of 11 per cent.

The project "will allow ANZ customers to enjoy the benefits of more efficient service levels across the range of branch services, including telling," said ANZ.

"A key aim of the project is to provide a sales focus and culture in branches, enabling staff to build a greater knowledge of processes and procedures."

Brokers said the plan was likely to lead to significant cost reductions and higher efficiency. "It's very positive from an efficiency point of view," said Hamish Dee, a dealer with Henderson Charlton Jones.

ANZ said natural attrition would be used as much as possible in the programme.

It did not give a timeframe for the cuts.

CCF plans rights issue for CIC bid

By Andrew Jack in Paris

Crédit Commercial de France, the French bank, plans a rights issue to help fund the purchase of CIC, the state-owned regional bank, if its bid proves successful.

Charles de Croisset, CCF chairman, said yesterday that the board – with support from its largest shareholders – had approved the principle of a "moderate" increase in capital.

He stressed that if his bank's bid were accepted by the French state, the acquisition of CIC would have a positive effect on the combined group's performance from 1998.

The details emerged as Moody's, the credit rating agency, warned yesterday of the risk of a downgrade for any purchaser of CIC, stressing that its "modest" performance could put pressure on profits and its costs affect the "financial flexibility" of the acquirer.

Moody's added that integrating CIC would provide a "very serious challenge" for any new owner because of the bank's decentralised structure, the need to maintain commercial insurance links with GAN, its state-owned parent, and the French government's concern that any restructuring should not involve significant job losses.

The alert emerged the day after bids closed in the privatisation process for CIC, with five candidates submitting offers out of the seven which had examined confidential financial information on the bank in the last few weeks.

Crédit Mutuel, another candidate, said that its bid was based on the need to position itself for the proposed single European currency.

Alongside CCF, the other bidders are Société Générale, Banque Nationale de Paris and ABN-Amro. A decision is expected by the end of March.

Mr de Croisset argued that CCF's bid would create a top-ranking bank with little overlap. Others have argued that the purchase of CIC would also act as a "poison pill", reducing the attractiveness of CCF itself as a takeover target.

CCF executives are believed to be considering the issue of preference shares as one of a number of ways of raising additional capital to help fund the CIC purchase.

Other French banks, including Société Générale, have already launched such issues in the last few months.

CCF's 1997 annual results published yesterday showed net income up 17 per cent to FFr1.6bn ($265m), on revenues up 13 per cent to FFr10.9bn.

It raised the level of provisions to FFr919m, up 23 per cent on 1996. That included a FFr230m charge against the Asian crisis.

Yuksi hits back at Dart group

By Robert Corzine in London and Chrystia Freeland in Moscow

Yuksi, Russia's largest oil company, has vowed to rebuff what it views as "greenmail" attempts by Ken Dart, the US plastics magnate.

Eugene Shvidler, Yuksi's chief financial officer, said the company "will not give in to racketeers", who he claimed were seeking preferential treatment.

Mr Dart, a minority shareholder in several of Yuksi's production subsidiaries, has led a campaign against the company, which he says has transferred all the value out of the subsidiaries.

Yuksi was recently punished by the Federal Securities Commission, Russia's stock market watchdog, for mistreating minority investors. Last week it announced the creation of an international board of western consultants and bankers to create a "charter" to ensure it does not violate shareholder rights.

"We will explain more quickly and clearly the corporate governance issues," Mr Shvidler said. But Mr Dart "can't stimulate us to take him out".

Yuksi is talking to other minority shareholders, including western hedge funds. But overtures to Mr Dart's group had been rebuffed. "He's not answering our calls ... and he refuses to say what his potential losses are."

Walter Rieman, a lawyer for Dart Management, hit back, saying "it is simply not true" that the US group was refusing to communicate with Yuksi. But he declined to specify the extent of Dart's interests in the company or its potential losses. "It is not relevant," said Mr Rieman, who added that Dart was "happy to look at any proposal" put forward by Yuksi.

Yuksi said there was little value in Russia for crude oil produced at the wellhead, the level at which the minority shareholders have invested. It claims value is created by the integrated group when it exports the oil or moves it to a domestic refinery and into a distribution system.

"We need to communicate better," said Mr Shvidler. "But give us some time ... Mr Dart is asking us to do something that is not in the long-term interests of the company."

He added Yuksi was in talks with five potential international oil partners.

Euro Lloyd chain sold to Kuoni

German airline group Lufthansa and Karstadt, the German retailer, yesterday agreed to sell Euro Lloyd, one of Germany's biggest travel agency chains, to Kuoni, the international travel and tour operator, writes Graham Bowley in Frankfurt.

The sale is the latest move in the restructuring of the German travel industry. It follows the sale by Lufthansa of its stake in Hapag-Lloyd and the DER travel agency chain.

Lufthansa and Karstadt have already joined forces by merging Lufthansa's charter airline Condor with NUR, Kartstadt's tour operating business.

They are forming a so-called "yellow" alliance to take on the rival travel empire being built up around Preussag, the industrial conglomerate, which took over Hapag-Lloyd last year.

The Euro Lloyd sale price was not disclosed, but analysts said earlier reports had put the company's value at about DM100m ($55.6m).

Euro Lloyd, which is strong in the corporate travel market, employs about 900 and in 1996 had revenues of DM1.07bn. The sale still has to be agreed by Lufthansa shareholders.

Kuoni, which is Swiss-based, agreed to buy the 49 per cent Euro Lloyd stake held by Lufthansa and the 51 per cent owned by Karstadt.

Polish groups find safety in solidarity

The recent creation of the largest textiles group in central Europe sends a signal to Poland's fragmented industrial producers that consolidation is a way of facing the competitive challenge from the European Union and further afield.

The group is built around Prochnik, a Polish garment manufacturer in the industrial centre of Lodz, and was handled by the Piast investment fund, one of 15 set up under Poland's mass privatisation programme (MPP).

It has been closely followed by Hetman, another MPP fund which grouped Grajewo and Prospan, two local chipboard manufacturers. Like Piast, the Hetman fund wants to centralise marketing, investment and purchasing activities.

Hetman, which owns strategic shares in both plants, made the move to defend its position against Kaindl, a family-owned Austrian group which has won control of most of Poland's remaining chipboard production capacity.

The threat from Kaindl is all the more pressing as it is building a DM160m ($88.9m) chip board factory with 600,000 cu m annual capacity at a special enterprise zone in Mielec, south-east Poland, which gives corporate tax breaks for up to 20 years.

"We're the first to do this," says Christopher Mikulski, a graduate of the Insead business school in Versailles, who managed Benetton's central European operations before moving to head Piast. "But the other investment funds will soon follow us and Hetman, and begin grouping the companies they have been given to manage".

Under the MPP, the 15 funds were given strategic stakes in about 500 state enterprises two years ago. Shares in the funds were later distributed to the wider population and the funds were listed on the Warsaw Stock Exchange, where their prices languish at heavy discounts to book value.

The move has propelled Prochnik from being one of Poland's smaller listed companies to the largest textile producer in terms of sales

Some companies in the scheme have been floated on the bourse by the funds listed, while others have found strategic investors. The majority of the former state companies remain on the funds' books.

Mr Mikulski explains that Piast's move recognises that many of these companies were merely production units and there was no point developing management and marketing functions. Rather, Piast decided to buy control of Prochnik, an ailing coats manufacturer already listed on the Warsaw bourse, and then used the company to take control of six of the textile producers in the fund's portfolio. The producers brought under this umbrella make everything from knitwear to net curtains.

The move has propelled Prochnik from being one of Poland's smaller listed companies to the largest textile producer by sales. Management and marketing will be concentrated in Lodz, where the group will be able to capitalise on the strong brand.

The Piast fund has, at a stroke, turned non-tradeable stocks in its portfolio into liquid assets quoted on the bourse. At the same time, other funds in the MPP were able to trade their minority stakes in the six Piast textile producers for Prochnik stock.

For its part, Hetman floated the Grajewo chipboard plant last year. The fund later bought a controlling share in Prospan, based in the western city of Wieruszow, from the treasury.

Both plants, which were built in the 1970s as part of an investment drive designed to provide furniture for the then communist government's housing programme, are to be integrated in a joint group.

Grajewo and Prospan last year had combined capacity of 700,000 cu m. Like Piast and Prochnik in textiles, Hetman has little choice but to consolidate if it is to preserve market share. Already, the Kaindl family owns two plants in Poland turning out 790,000 cu m, and its Mielec facility will have annual capacity of 600,000 cu m.

Christopher Bobinski

Price-fixing fears depress SGL Carbon

By Graham Bowley in Frankfurt and Mark Suzman in Washington

Shares in SGL Carbon, the world's leading carbon and graphites group, fell by around a fifth yesterday over fears that the German group might be implicated in a price-fixing scandal in the graphite electrode industry.

One of SGL's main rivals, Showa Denko Carbon, the US subsidiary of Japanese group Showa Financing, pleaded guilty on Monday to anti-competitive practices and agreed to co-operate with investigations by US authorities.

The US Justice Department, which imposed a $29m fine on Showa, said the charges were part of a wider investigation into price-fixing and said more prosecutions could follow.

The charges raised speculation that investigations would now focus on SGL Carbon, one of the market leaders, which has been under investigation with other companies by US and European anti-trust authorities since last summer.

SGL Carbon officials refused to comment on the implications for the company of the Showa ruling. "We are assessing the situation. There is nothing we can add," a spokesman for the Wiesbaden-based company said.

SGL Carbon shares fell by more than DM50 or 21 per cent, before recovering to close at DM199.5, down more than 16 per cent.

Last June investigators in Germany and the US searched and removed documents from SGL Carbon offices in Germany and in North Carolina in the US. Other manufacturers, such as the Pittsburgh-based Carbide/Graphite Group and UCAR International of Connecticut, have also been drawn into the probe.

SGL Carbon has maintained that no specific allegations have been made against it. The European Commission said yesterday it would continue its own investigations into allegations of price-fixing.

SGL Carbon has enjoyed tremendous success since it was spun off from Hoechst, the German chemicals and pharmaceuticals group, earlier this decade. SGL's shares have risen sharply since its initial public offering in 1995.

Chief executive Robert Koehler has pushed to make the company more global. Last year it had sales of DM2.1bn ($1.17bn) and an operating profit of DM376m. It is one of the few German companies to publish accounts according to US GAAP.

The US Justice Department ruled that Showa Denko Carbon had fixed prices and allocated market share for graphite electrodes in the US and other countries between 1993 and 1997.

In the US alone, the market for graphite electrodes – which are used in the steel industry – was worth approximately $500m in 1996.

Peregrine staff taken on by Santander

By Clay Harris, Banking Correspondent

Grupo Santander yesterday underlined its ambition to become the European bank with the broadest reach in emerging market equities, with an opportunistic Asian expansion.

The Spanish banking group has taken 130 staff from Peregrine, the Hong Kong-based investment bank which collapsed last year. Santander is paying an undisclosed amount in the transaction, which includes Peregrine's London, New York and Singapore offices and staff from Hong Kong.

The operations taken over achieved a pre-tax profit of $60m last year, according to Andrew Jamieson, Peregrine Securities chief executive, who has joined Santander Investment as head of Asian equities.

Santander's deal coincided with HSBC Investment Banking's closure of its New York-based Latin American equities operation and reorganisation in Brazil and Argentina.

The moves reflect a continuing shake-up in emerging market securities, not limited to countries directly affected by the Asian crisis. ING Barings, a bank with a highly rated Latin American operation, recently cut 200 jobs in the region.

"I will not be modest," José Antonio Diaz, Santander Investment's global head of equities, said yesterday. "One of the major reasons our competition is pulling out of Latin America is our model. They cannot compete."

Santander has combined local banking operations in seven Latin American countries with an international equities distribution network. It hopes to repeat the pattern in Asia and emerging European markets.

Santander had decided to expand in Asia before the crisis. "We always saw Asia as such a big animal that we couldn't digest it," Mr Diaz said, but Peregrine's problems gave Santander its chance. The deal does not include Peregrine's fixed-income or derivatives operations, which have not found a buyer.

The HSBC cuts will involve the loss of 25 jobs in New York, after seven in London earlier this month. Local staff in Brazil and Argentina will join Banco Bamerindus and Banco Roberts, HSBC's respective local retail banking subsidiaries.

Telefónica tries for US pact

By David White in Madrid and Alan Cane in London

Juan Villalonga: keen to salvage something of last year's alliance   Ashley Ashwood

Juan Villalonga, chairman of Spain's Telefónica, is expected to seek board approval today to negotiate an alliance with WorldCom-MCI of the US, to salvage something from the three-way deal agreed last year with MCI and British Telecom.

Mr Villalonga went to the US earlier this month to explore an alliance with WorldCom. However, it is understood he returned without firm commitments.

At the same time, the Spanish company's co-operation plans with BT seem set to be abandoned, with the UK group gearing itself to compete with Telefónica head-on in the Spanish market. Analysts say "distant" discussions are continuing but that BT is determined not to pursue an alliance.

Given the uncertainties over any potential alliance, it is unlikely a final decision will be reached at today's meeting. The three-way plan was scuppered last autumn when WorldCom launched its bid for MCI, blocking BT's plans to join forces with the US long-distance operator.

Under plans agreed in April, BT was to have bought Pta65bn ($426.5m) worth of Telefónica shares, equivalent at the time to a 2 per cent stake, and Telefónica was to have spent the same amount to take a 1 per cent holding in BT. The cross-shareholding deal has not been carried out.

Analysts think BT is unlikely to bid for Spain's third fixed-line telephone licence, in direct competition with Telefónica, as the market will be fully liberalised later this year.

A second operator, Retevisión, launched its services in January. France Telecom, an unsuccessful bidder for the second licence, is expected to be in the running for the new tender, being staged ahead of full liberalisation of Spanish telecoms in December. The new operator will be required to invest at least Pta100bn over five years.

BT already holds just under 16 per cent of the mobile telephone company Airtel. This is so far the only competitor for Telefónica in mobiles, but a further licence is due to be allocated in the summer.

The new deal under discussion with WorldCom-MCI is based on last year's plans, under which Telefónica and MCI envisaged a joint pan-American venture offering a range of telecommunications services. The Spanish company was also to join MCI as a shareholder in Avantel of Mexico.

The failure of the BT-MCI scheme left Telefónica's alliance strategy in ruins. As a result of the initial agreement, Mr Villalonga had pulled Telefónica out of the international Unisource consortium, allied with AT&T.

The Spanish group is aiming at partnerships in Latin America, where it has a strong presence, and a foothold in the US, where it wants especially to target the Hispanic market.

Ares-Serono expects boost from MS drug

By William Hall in Geneva

Sales of Rebif, Ares-Serono's new multiple sclerosis drug, could top $500m a year if the Swiss biotech company wins US and European approval for its new genetically engineered treatment for the disease.

Rebif is the best known of a number of new biotech products which Ares-Serono hopes will reduce its dependance on infertility drugs, where it has 70 per cent of the global market.

Ares-Serono yesterday reported a 64 per cent jump in 1997 net income to $87.8m and a 166 per cent surge in Rebif sales to $40.6m.

Rebif's growth was overshadowed by sales of Gonal-F, a new genetically engineered infertility drug, which jumped 282 per cent, to $116m.

However, sales of Gonal-F are at the expense of Ares-Serono's other infertility drugs, such as Pergonal and Metrodin.

Simon Marshall-Lockyer, of NatWest Markets in Zurich, described the initial sales performance of Rebif as "incredibly impressive" since it was being sold only in Italy, Argentina, Brazil and Mexico.

Last week Canada approved its use for the treatment of relapsing-remitting multiple sclerosis, the most common form of MS, and the European Union is expected to authorise the drug within the next few months.

Ares-Serono expects to take the first step towards winning US approval for Rebif by registering it with the US Food and Drug Administration in the next few weeks.

There are 350,000 MS patients in the US and 370,000 in Europe. It is a chronic debilitating disease of the central nervous system. Rebif is one of a number of new drugs which delay its progression.

Given that the new drugs can cost as much as $10,000 per patient a year, the potential market is substantial, especially if the drugs can be extended to patients with "secondary-progressive" MS.

Mr Marshall-Lockyer believes that Ares-Serono's sales of Rebif could reach $500m a year if it can break into the US market.

His optimistic outlook for Rebif, Gonal-F and Serostim, an anti-Aids drug, underpins his estimate that Ares-Serono's net profit will treble to $268m over the next three years. The group's shares have nearly doubled in value over the last year.

However, Mr Ernesto Bertarelli, chief executive, moved to damp expectations, describing Ares-Serono's chances of marketing Rebif in the US as "50-50".

The group increased its dividend by 50 per cent, to SFr7.5 per bearer share. But Mr Bertarelli's cautious statement, combined with profit taking, resulted in a 6.8 per cent drop in Ares-Serono's shares to SFr2,125.

EUROPEAN NEWS DIGEST

Neste advances ahead of merger

Neste, the Finnish oil and petrochemicals group, yesterday announced sharply higher profits despite the negative impact of falling oil prices and refinery shutdowns. The company – which is finalising a merger with state power group Imatran Voima (IVO) – said pre-tax profits rose from FM566m to FM983m ($180m) last year, on sales up from FM43.4bn to FM45.6bn.

However, the improvement was distorted by Neste's performance in 1996, when it was hit by heavy oil trading losses and reverses at Borealis, its jointly-owned chemicals group. Senior officials said it was a creditable performance, particularly as the 1997 figures were achieved after a FM250m write-off on oil stocks and the FM200m cost incurred on the maintenance shutdown of its Porvoo refinery near Helsinki.

Operating profits, moreover, rose from FM1.08bn to FM1.62bn even though the oil refining and bulk sales division was held back by falling prices. The company said prices for Brent Blend crude oil had fallen from $25 a barrel to $16 a barrel since January last year, while refining margins remained under pressure. Profits in exploration and production rose from FM459m to FM532m, although contributions from the chemicals division tumbled from FM332m to FM178m.

Neste's balance sheet, meanwhile, will be strengthened this year by almost FM4bn following one-off gains on the sale of its 50 per cent stake in the Borealis joint venture with Statoil of Norway. Earnings per share rose last year from FM3.14 to FM9.26. An increased dividend of FM3, against FM2, has been proposed. Neste shares fell FM0.50 to FM141.50.

Tim Burt, Stockholm

■ FORESTRY

Enso defies volatile paper price

Enso, the Finnish forestry group, yesterday defied volatile pricing in the paper industry by reporting a sharp increase in full year profits. The company, one of Europe's largest paper producers, saw pre-tax profits jump from FM1.67bn to FM2.29bn ($419m) on sales ahead from FM25.7bn to FM29.3bn.

Although prices for some grades of paper fell during the year, Enso's figures were bolstered by maiden contributions from E. Holtzman & Cie, the privately-owned German group, in took a majority stake for $350m last year. Jukka Hämälä, chief executive, said profits had also been enhanced by proceeds on the sale of Enso Paperikemia, part of the group's forest chemicals division.

At the operating level, profits rose from FM2.71bn to FM3.1bn as increased delivery volumes compensated for price volatility. Mr Hämälä, however, said the fourth quarter had been hit by economic turmoil in south-east Asia, which accounts for about 8 per cent of group sales. That was offset by steady growth in Europe and North America – where European producers have benefited from the strength of the US dollar.

Earnings per share rose from FM4.50 to FM5.87, or from FM3.56 to FM5.02 including deferred tax provisions. An increased dividend of FM2.20 has been proposed, against FM1.80 last time. Enso's most commonly traded R shares were up FM0.50 at FM48.

Tim Burt

■ PHARMACEUTICALS

Teva expects improvement

Teva, Israel's leading pharmaceuticals company, said yesterday it expected profitability to improve this year after shouldering high marketing costs and one-off charges in the fourth quarter. Net income for the fourth quarter last year was $21.26m, or 34 cents a share, before a one-off charge of $21m, compared with $30.27m, or 49 cents, over the same period the previous year. After the charge, earnings per share for the quarter fell to 1 cent from 49 cents in 1996.

However, sales and profits for all of 1997 rose, with revenues up from $953.7m in 1996 to $1.11bn. Net income rose from $88.32m to $122.4m, before the fourth-quarter charge in 1997. In 1996 there was a $14.9m charge. Earnings per share were $1.65 compared with $1.20 in 1996.

Judy Dempsey, Jerusalem

■ GERMANY

Axel Springer ahead 28%

Axel Springer, the German magazine and newspaper publishing group, said net profits rose 28 per cent last year to DM210m ($116.7m). Turnover was 4 per cent higher at DM4.6bn. Shareholders will again receive a DM20 dividend, along with a bonus of DM4 to mark the sharply improved financial performance. The company, whose daily newspaper titles include Die Welt and Bild, the mass tabloid, is in a phase of expansion but has also been unsettled internally by a change of top management. Jürgen Richter, who launched new titles and increased profitability, was recently replaced by August Fischer, a former executive with Rupert Murdoch's News International. This was after Mr Richter had lost the confidence of Friede Springer, the main shareholder and widow of the group's founder.

Andrew Fisher, Frankfurt

■ COMPAGNIE BANCAIRE

Paribas wins 98% of shares

Paribas, the French banking group, said yesterday it controlled 98 per cent of Compagnie Bancaire, the specialist financial group, following the takeover it launched in November. Compagnie Bancaire said shareholders would vote on the payment of a dividend of FFr317m ($52.5m) and a merger with Paribas at the annual general meeting on May 12. The group also reported a strong return to profits in 1997, with net income of FFr2.04bn compared with losses of FFr468m in 1996 after including exceptional provisions of FFr2.5bn.

Andrew Jack, Paris

■ SHARE INDICES

Stoxx sees profit by 2000

Stoxx, the Zurich-based company set up to market a range of new European share indices, should be profitable by 2000 at the latest, one of its leading shareholders indicated yesterday. The company, with SFr1m ($689m) in capital, is owned in equal proportions by the French, German and Swiss stock exchanges, and Dow Jones. It will launch its indices on Thursday, and aims to be profitable within two years through sale of the information to subscribers.

Andrew Jack

COMPANIES AND FINANCE: UK

Offer values US factory software group at $375m

Wonderware agrees Siebe bid

By Andrew Edgecliffe-Johnson

Wonderware of the US agreed yesterday to a $375m bid from Siebe, which will expand the engineering and electronics group's fast-growing control systems division.

The 11-year-old Californian group pioneered the use of Microsoft Windows software applications for automating factories, but specialises in serving smaller users than Siebe's Foxboro business.

The $24 per share offer represents a multiple of 68 times Wonderware's 1997 pre-exceptional profits after tax, and is 50 per cent above Wonderware's previous trading price on Nasdaq.

Allen Yurko, Siebe's chief executive, said that although the headline figure might look "pricey", it reflected Wonderware's rapid growth since the middle of last year, when it bundled its entire product line into one package, FactorySuite.

Wonderware had a turbulent period in 1996 with the departure of its founders and heavy development investment that put it into the red. However, the success of FactorySuite, meant the group made $4.7m of last year's $5.9m pre-tax profit in the fourth quarter.

Siebe plans to retain Wonderware's directors and to run it as a separate subsidiary. The purchase price includes $22m profits on share options.

Wonderware reported turnover of $82.5m in 1997 and had net assets of $86.5m at December 31. Analysts said there was scope to improve its operating margins from the fourth quarter's 19.4 per cent.

Mr Yurko said Siebe could save $8m by sharing administrative costs as it already owned a company in Irvine, California, where Wonderware was based.

"Profitability could conceivably explode," he added, as the acquisition would broaden each company's distribution network, bring Siebe a list of blue-chip clients, and allow the pair to share costs and technology.

Siebe had been looking for "clip-on" acquisitions of about $150m in industrial equipment, and had signalled it was bargain-hunting in Asia. Mr Yurko said yesterday: "We have seen nothing in Asia that whet our appetite."

Ashley Ashwood

Allen Yurko has been eyeing Wonderware for two years

The pace of acquisitions would now slow down, he said, as it would have more than £1bn ($1.67bn) net debt and 90 per cent pro forma gearing. Interest cover would remain comfortable at 6-7 times.

He added that Siebe had been watching Wonderware for two years, and had planned "to take a hard look at it" in early 1999. The strength of the fourth-quarter results forced its hand.

Siebe's shares rose 12p to £11.68 yesterday while Wonderware jumped $7⅞ to 23⅞ - its highest level since June 1996. Siebe was advised by Merrill Lynch and Wonderware by Taylor Rafferty.

Provisions and disposal costs hit NatWest

By George Graham

National Westminster Bank yesterday did its best to close the door on a disastrous year that saw the unravelling of its strategy of building a global investment bank and dragged its pre-tax profits down to £1.01bn ($1.68bn) against 1996's already dismal level of £1.12bn.

Disposing of its equities businesses proved costlier than disclosed in December, with pre-tax losses for NatWest Markets, the group's investment banking division, climbing to £706m, including a £292m restructuring charge.

Lord Alexander, chairman, said that had obscured the performance of other businesses in which the bank had "a really excellent underlying franchise".

Pre-tax profits in NatWest's UK retail and business bank rose 48 per cent to £962m, despite heavy investments in overhauling its network. That produced a return on equity of 28 per cent, compared with 11 per cent last year and a long-term target of 17.5 per cent. But bad debts and restructuring costs in the US dragged profits at Coutts, NatWest's private banking unit, down to £29m (£105m), and profits from the treasury division fell 3 per cent to £294m.

NatWest made provisions of £17m to cover £59m of loans to South Korea, Indonesia and Thailand which have already turned sour. It set aside another £80m as a general provision to cover the rest of its £1.45bn exposure to these countries.

This offset a 43 per cent drop in UK provisions to £169m, leaving the group's total charge for bad and doubtful debts at £562m (£549m).

Derek Wanless, chief executive, said NatWest had faced up to the "painful realities" of its mistakes in the international banking arena and would concentrate on its core UK franchise.

The shares fell 21p to £11.04.

Lex, Page 14

LEX COMMENT

Safeway

At least Safeway is not in denial. That is the good news from an otherwise gloomy trading statement. Operating profit is set to fall to £375m in 1997-98 from £430m, with little expectation of improvement for 1998-99. Understandably, the company is trumpeting the improvement in the sales line - like-for-like sales running at 3.2 per cent compared with a measly 0.2 per cent back in November. The big challenge, of course, is to sustain this trend. Recognition that the problem goes deeper than merely dropping the ball last autumn offers some hope. The company has faced up to the fact that the faltering sales line has its roots in neglect, over a long period, of fundamentals like value, product and service. Belatedly, the company is coming into line with its main competitors. The £40m extra investment will help it make up lost ground.

Whether this will guarantee Safeway an independent future is less clear. It is not inconceivable: other members of the big four - Asda, J Sainsbury, and Tesco - have all had a turn at coming from behind. In principle, Safeway should be able to do the same. The focus on the "family shopper", coupled with other planned changes, has the potential to deliver benefits.

But clearly the mooted tie-up with Asda, offering some £200m annual cost savings, would have been a quicker route to unlock value. Without it - and the current management only offering jam in 1999 - there should be no hurry to own the shares.

Power struggle sinks £110bn drugs empire

Daniel Green charts the boardroom battles between Glaxo Wellcome and SmithKline Beecham over the proposed merger

It was on Monday February 16 that Sir Richard Sykes, chairman of Glaxo Wellcome, came to believe that the £110bn ($184bn) merger he planned with SmithKline Beecham was heading for the rocks.

Two weeks had passed since the two companies had revealed they were in talks to create the world's biggest pharmaceuticals company.

Between 70 and 80 Glaxo people and almost as many from SmithKline were preparing the way for confirmation of the merger in early March.

However, many in the Glaxo teams were uneasy about the deal. Glaxo took over Wellcome, its UK rival, only three years ago. Glaxo had been the dominant partner, and even then the merger had been a painful experience that included job cuts at some Glaxo sites.

The deal with SmithKline was different, billed by both companies as a merger of equals. The size difference between the two was reflected largely in the financial structure of the deal: 59.5 per cent to Glaxo's shareholders and 40.5 per cent to SmithKline's.

But as the talks progressed, Glaxo people began to think of themselves as much bigger. The company's £8bn sales in 1997 was entirely in prescription drugs.

SmithKline sells non-prescription drugs, toothpaste, and soft drinks such as Ribena and Lucozade as well as prescription drugs. It also has a network of laboratories working for doctors and hospitals and a lossmaking drugs distribution business.

However, take away all but the prescription drugs, and SmithKline's 1997 sales were £4.6bn, just over half Glaxo's figure.

Why should Glaxo be in a merger of equals - in terms of the core drug products - with a company barely half its size, ran the thinking.

As rumblings began to drift up towards Sir Richard that his managers wanted a bigger slice of the pie, both companies needed to break off talks to present their 1997 annual results.

SmithKline wanted to include an upbeat statement on the progress of the talks. Sir Richard vetoed this. He agreed only to a brief statement that a further announcement would be made in early March.

SmithKline staff had little inkling of why Glaxo was being so cautious, but agreed to the change. Jan Leschly, its chief executive, stuck to the agreed statement at the results presentation on February 17.

The next day, as SmithKline's people resumed the merger preparations, Glaxo's board met in London and decided that the terms of the deal needed to be renegotiated to reflect what they saw as an imbalance of power.

The basic terms had included a three-to-two board structure. It consisted of two SmithKline men, Mr Leschly and Jean-Pierre Garnier, its chief operating officer, and three Glaxo people, Sir Richard, Robert Ingram, the company's chief executive, and John Coombe, finance director.

But the balance of power was more evenly split. Sir Richard, 55, was pencilled in as chairman with Mr Leschly, 57, as "head of the executive committee", a position whose precise powers had yet to be defined. The heir apparent was Dr Garnier, 50, who has been waiting for promotion to the top spot at SmithKline for at least three years. Mr Ingram, 55 had been Glaxo's chief executive only since last October.

At Glaxo's annual results presentation on February 19, Sir Richard said nothing about further statements due in March.

On Friday February 20, Sir Richard detonated his bomb: the board had to be redesigned to give Glaxo more power.

SmithKline executives were stunned. They accused him of going back on agreed arrangements, but the Glaxo chairman was unmoved.

On Saturday, senior SmithKline executives flew to Philadelphia, SmithKline's US headquarters where Mr Leschly is based.

Over the weekend, SmithKline executives came to the conclusion that Glaxo was trying to turn a merger into a takeover.

The SmithKline board meeting that followed on Sunday February 22 decided on a simple course of action to solve the problem: four top men would meet on Monday in central London in a last-ditch attempt to rescue the deal.

The four were Sir Richard, Mr Leschly, Sir Roger Hurn, Glaxo's non-executive deputy chairman, and Sir Peter Walters, SmithKline's non-executive chairman.

The meeting was a failure. The problem was not the price of the deal, the company's relative valuations had been set by the stock market. Nor was it the possibility that the new company might sell SmithKline's consumer side, its laboratories or drugs distribution business. The documents both sides were preparing showed the whole of SmithKline becoming part of the new business. Nor had Glaxo's due diligence discovered a black hole at the heart of SmithKline.

The problem was what Glaxo saw as an unfair balance of power and what SmithKline saw to be an attempt by Glaxo to rule the new drugs empire.

In retrospect, the preparation before the announcement of talks had been too hasty. A board structure was made public that Glaxo had come to regard as a proposal and SmithKline as set in stone.

By February 23, that difference poisoned the atmosphere between the two companies, and their deal died.

Before dawn yesterday, the damage limitation exercises had begun. Both companies plan to issue "forward looking" statements, giving projections the merger rules prevented them from giving at the time of the annual results. But the question remains of whether either of these companies will remain as they are a year from now.

"The logic that brought these two companies together is still in place," said one City pharmaceuticals analyst yesterday. "Industry consolidation will continue."

SmithKline faces the more difficult problems in the short term. The company needs cash. Although debt is falling, it has admitted that it does not have the resources to exploit fully the possibilities being turned up by its genetics research operations.

Mr Leschly has failed to complete two mergers. He jilted American Home Products in January after Glaxo proposed an even grander marriage. These failures have corroded one of the best management reputations in the pharmaceuticals industry.

Mr Leschly, a former professional tennis player, has often said that he planned another phase in his life after SmithKline and before retirement. He will not want to bow out at a low point, and the stock market is pricing the companies' shares as if a merger will take place.

Glaxo's problems seem to be less pressing: it is already among the world's top three drugs companies. But the company has suffered from the expiry of patents on its best selling drug, Zantac, an ulcer treatment, and on Zovirax, for herpes.

The trouble with being so big is that you have to launch more products to grow at a given rate. Glaxo may have new products growing quickly but it is not yet clear that it will be enough to return it to the pre-eminence it enjoyed in the 1980s.

Shareholders pick up pieces

Like parents whose child has chosen a perfect partner, shareholders in Glaxo Wellcome and SmithKline Beecham have been in a fever of excitement over the planned wedding between the UK's two biggest drug companies since the merger was announced three weeks ago, writes Roger Taylor.

So there was disappointment yesterday when the unhappy couple said the romance was over. With an estimated £1bn ($1.67bn) of annual cost savings at stake, the public explanation for the bust-up - an inability to agree who gets which executive jobs - seemed inadequate.

Some institutions felt there must be some undisclosed but more compelling reason to abandon the deal. Most were busy fixing up meetings with both companies yesterday, anxious to talk through the problems.

Worst hit are those such as Mercury Asset Management which have increased their holdings in the companies. MAM's stake in Glaxo increased from 2.94 per cent to 3.18 per cent since the start of the month.

Standard Life, the UK's largest insurance company, said it was overweight in both stocks but had not increased its holding and was no worse off than it was three weeks ago.

Graham Wood, head of UK equities at Standard Life, said he wanted a good explanation on why the deal did not happen but was confident he would get it.

"Both these companies have strong non-executives on the boards. That makes me think there must have been a problem of substance," he said.

The non-executives of both companies refused to talk. The only comment from Glaxo was that the issue was "red hot" and could not be discussed.

SmithKline said the episode was now closed and the non-executives would have been mad to try to pressure the executives into doing a deal they were not happy with.

This view is supported by Cary Cooper, professor of organisational management at University of Manchester Institute of Science and Technology.

He said that merging companies tended to overestimate financial benefits and underestimate the importance of non-financial factors such as management style. "The evidence is clear. When cultures are not right and management is incompatible you should not go ahead with the merger," he said.

Safeway issues further warning

By Peggy Hollinger

Safeway, the UK's fourth largest food retailer, yesterday admitted it would have to sacrifice profitability to survive as an independent company, as it issued its third profits warning in a year.

The group, which confirmed reports in the Financial Times last week of disappointing current trading figures, said annual pre-tax profits would fall from last year's £430m to about £375m ($626m) this year. Moreover, a £40m investment programme in price promotions, products and the supply chain was likely to leave profits flat in 1998-99.

Colin Smith, chief executive, said recent poor trading had forced Safeway to "face up to the fact that we had a margin structure which was untenable in this marketplace."

Mr Smith said the dividend would also be frozen until Safeway was able to demonstrate sustainable improvements in sales growth.

However, sales growth had improved since the new year to 3.2 per cent over seven weeks, making a total increase for the second half of about 1.4 per cent.

The group also announced plans to close or dispose of 44 underperforming stores.

The shares closed 9½p down at 355½p.

Standard Life in mutual fund move

By Christopher Brown-Humes

Standard Life, Europe's largest mutual life assurer, is to take on the UK's leading fund managers, by setting up an investment subsidiary targeting corporate pensions and mutual funds.

The subsidiary, Standard Life Investment Management, will be run as a separate company, and with £60bn ($100bn) under management will have twice the assets of any other Scottish fund manager.

Its ambition is to win mandates from third parties and take significant market share not only in the UK, but in Europe and North America.

Sandy Crombie, chief executive of the new unit, said the aim was to create a "substantial global investment operation".

"We believe the marketplace will recognise the quality of our investment operation and that it will present serious competition to the established UK investment houses."

Standard Life has built up its investment operations over the past four years, doubling staff to 440.

The new subsidiary is part of this organic expansion, but it also aims to exploit the recent underperformance of some rival fund managers.

The group believes its financial strength will attract business.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Access Plus Φ	Yr to Dec 31	16.2	(10.6)	2.4	(1.35♠)	10.36†	(5.72)	3.1	May 11	2.33	4.65	3.5
Admiral	Yr to Dec 31	117.2	(90.8)	17.6	(11.2)	17.8	(11.6)	2	May 8	1.54	2.9	2.24
Alumasc	6 mths to Dec 31	81	(84.9)	4.28♠	(8.53)	7.5	(10.75)	2.45	Apr 9	2.45	-	8.5
Arriva	Yr to Dec 31	1,421	(1,128)	101	(81.2)	36.1	(33.2)	9.9	Apr 17	9	13.5	12.4
Capita	Yr to Dec 31	172.9	(111.9)	18.3	(12.3)	6.51†	(4.75)	1.4	Apr 29	1.067*	2.1	1.6*
Carisbrooke Φ	Yr to Dec 31	12.2	(12.7)	1.59L♠	(1.02)	16.31L†	(10.88)	nil	-	2.5	1	3.5
Charterhouse ComΦ	6 mths to Nov 30	2.63	(2.21)	0.501	(0.368)	0.38	(0.23)	0.12	Apr 7	-	-	0.14
Dixon Motors	Yr to Dec 31	413.6	(262.6)	8.66	(5.5)	26.3†	(19.9)	5	Apr 30	4	7.5	6
Easynet Φ	Yr to Dec 31	7.43	(2.16)	1.32L	(0.971L)	6.43L	(6.34L)	-	-	-	-	-
NatWest	Yr to Dec 31	-	(-)	1,011♠	(1,122♠)	36.5	(23)	21.6	May 5	18.4	32.2	29
Newmark Tech Φ	6 mths to Oct 31	1.02	(-)	0.08L	(-)	0.19L	(-)	-	-	-	-	-
Pifco	6 mths to Oct 31	24.2	(21.7)	2.07	(1.82♥)	10.4	(9.9)	3	May 1	2.5	-	8
Radius	Yr to Dec 31	27.7	(27.3)	1.12	(1.59)	2.94	(4.05)	0.55	May 14	1.1	1.1	1.65
Seet	6 mths to Oct 31	7.73	(4.01)	0.286L♠	(0.109)	3.74L	(1.64)	-	-	-	-	-
Sema	Yr to Dec 31	1,130	(927)	84.1	(50)	39.14†	(30.94)	4.5	July 1	3.7	7.3	6
Sinclair (Wm)	6 mths to Dec 31	24.3	(21.4)	2.83	(2.24)	8.6	(6.9)	2.4	May 1	2.1	-	8.8
Steel Burrill Jones	Yr to Dec 31	37.7	(39.9)	1.37♠	(2.21♥)	3.03L	(3.62)	0.75	Apr 9	0.75	1.5	1.5
Wimpey (George)	Yr to Dec 31	1,223	(1,262)	63.1	(91.5)	12.06	(5.84)	3.7	May 14	3.3	5.7	5.5

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Govett American	6 mths to Dec 31	209.97	(221.34)	0.07L	(0.045L)	0.28L	(0.18L)	-	-	-	-	-
Jupiter Primadona	6 mths to Dec 31 ★	526	(481♦)	0.134	(0.224)	2.9	(5)	2.5	Mar 31	2.5	-	6

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ΦAim stock. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. *After adjustment for scrip issue. ★Comparatives restated. ♦At June 30.

INTERNATIONAL CAPITAL MARKETS

Wave of selling in US Treasuries

GOVERNMENT BONDS

By Simon Davies in London and John Labate in New York

Government bond markets continued to weaken yesterday, as Federal Reserve chairman Alan Greenspan failed to deliver the homily on the bull market that had been hoped for.

Phyllis Reed, director of Barclays Capital, said: "Greenspan didn't say anything that the market should have been too shocked about", but US TREASURIES had discounted a lot of good news, and Mr Greenspan's Humphrey-Hawkins testimony before Congress caused a wave of selling.

By mid-day the 30-year Treasury had fallen [illegible] to 102[illegible], sending the yield sharply higher to 5.959 per cent. Among shorter-term issues the 10-year note had lost [illegible] to 98[illegible], yielding 5.649 per cent, and the two-year note was down [illegible] to 99[illegible], yielding 5.563 per cent.

In the day's major economic report the consumer price index was shown to be unchanged in January after a 0.1 per cent rise in December. Among CPI components, energy prices fell 2.4 per cent while the core CPI index, without food and energy, rose a modest 0.2 per cent.

"The CPI data, while in line with expectations, gave us nothing new to add to the puzzle," said William Gamba of Cowen & Co in New York. "I think the market was a little disappointed that CPI didn't show a bit of a decline."

Treasury prices eased throughout Mr Greenspan's testimony. He spent much of his speech on the possible effects of the Asian financial crisis on US macroeconomic fundamentals.

"The outlook for total spending on goods and services produced in the US is less assured of late because of storm clouds massing over the Western Pacific and headed our way," Mr Greenspan said.

"If, as we suspect, the restraint coming from Asia is sufficient to bring the demand of American labour back into line with the growth of the working-age population desirous of working, labour markets will remain unusually tight, but any intensification of inflation should be delayed, very gradual, and readily reversible," he said.

It was a balanced speech, but its shock waves spread across the Atlantic, knocking European markets, which had been trading mostly higher.

GERMAN BUNDS settled 0.14 lower at 107.47 in London, having spent much of the day in positive territory.

Philip Tyson, bond strategist at HSBC Markets, said: "Bunds were caught up in the US crossfire, despite the fact that we've seen good PPI and regional inflation numbers. However, these numbers underline the case for European bonds."

Indeed, the yield spread between US Treasuries and German bunds had widened by 7 basis points to 76 points by 6pm in London.

Analysts said there was still no sign of inflationary pressures to spook the market, but there could be volatility around Sunday's Lower Saxony election.

David Brown, chief European economist at Bear Stearns, argues: "Those looking to squeeze more convergence out of the market over the next few months had better watch out for the upcoming German election in September and in particular the prospect of an SPD/Green victory."

The performance of the SPD's Gerhard Schröder in Sunday's election should provide a pointer for whether political shocks are likely.

UK GILTS continued to slide, dragged down by Wall Street. The March contract settled $\frac{13}{32}$ lower at 122$\frac{31}{32}$, on brisk volume of more than 118,000 contracts.

"Overseas investors are waiting for sterling to depreciate a little, and they want to see a clear peak in interest rates. But I think there is considerable scope for investment inflows in the second half of the year," Ms Reed said.

The spread against bunds widened by 2 basis points to 117 points, in spite of data showing a decline in UK manufacturing investment in the face of strong sterling.

ITALIAN BTPS moved in line with bunds, despite the release of disappointing regional inflation data, which eased hopes of interest rate cuts. Some analysts are now arguing there will be no move on rates until the European monetary union line-up is announced in May. The March contract settled down 0.24 at 118.32.

● The London International Financial Futures and Options Exchange has announced that it will open for trading on May 4, a bank holiday, since this is the first trading day following the decision on the membership of Emu.

Philippines rating outlook lowered

By Edward Luce

Standard & Poor's yesterday altered the Philippines' sovereign outlook from stable to negative, in spite of the country having been less badly affected than most of its neighbours by the Asian financial crisis.

The agency, which also lowered the country's long-term local currency rating from A- to BBB+, warned of a full-scale sovereign downgrade if the Philippines failed to improve its fiscal position. S&P said the government was expected to register its first budget deficit for five years in 1998.

The moves also reflected "the risk of potential financial mismanagement and fiscal slippage in response to populist pressures before and after the presidential elections in May".

The decline in the fiscal position would also hamper the government's ability to absorb costs from the deterioration of bank and corporate balance sheets triggered by the depreciation of the peso, S&P said. The sovereign rating remains BB+.

● The Philippines' National Power Corporation has signed a US$160m bridging loan with a syndicate led by Citibank, writes Abby Tan in Manila.

The state-owned company said the loan, to be guaranteed by the government, was to be used as bridge financing for the non-power parts of a US$1.1bn dam to be built in the northern town of San Roque.

The non-power components, costing US$400m, included irrigation, flood and water quality control, the utility said.

Citibank was the lead underwriter of the loan.

CAPITAL MARKETS NEWS DIGEST

Emerging market trading soars

Trading in emerging market debt instruments surged by 12 per cent in 1997 to almost US$6,000bn, partly as a result of the heavy sell-off in the fourth quarter in the wake of the Asian financial crisis.

According to a survey to be published by the Emerging Markets Traders Association today, trading in emerging market eurobonds hit $419bn in the fourth quarter of 1997 alone – not far short of the volume for 1996 as a whole.

This suggests the downturn following the global market turmoil in October made up a large proportion of the record turnover in 1997. However, the lively primary market for eurobonds and the strengthening in the secondary market in the first half of 1997 also contributed.

With $1,800bn alone, Brazil's debt instruments were the most frequently traded of all emerging market debt, making up about 30 per cent of turnover. Brazil's C-bond, its most liquid Brady bond, was the most traded instrument.

Nevertheless, the growing popularity of Brady retirement programmes – swapping collateralised debt for straight international bonds – led to an overall decline in Brady bond trading by 11 per cent to just $2,400bn in 1997 says EMTA. In contrast, trading in local market instruments rose by 18 per cent to $1,800bn.

Debt instruments issued by Argentina, Mexico and Russia respectively were the next most frequently traded in 1997 after Brazil. Asian debt constituted just two per cent of overall volume.

However, Joyce Chang, managing director at Merrill Lynch in New York, said this was likely to change dramatically during 1998, with Thailand, South Korea and possibly Indonesia expected to undertake large-scale refinancings of bailout loans from the International Monetary Fund.

Edward Luce

■ ASIAN CRISIS

S&P sees little impact on US firms

Recent improvements in risk management will help US investment banks weather the impact of the Asian financial turmoil, according to Standard & Poor's, the credit rating agency.

"Trading risk management has improved over the last decade [and] liquidity management has become more disciplined," S&P says in a report published this week.

In spite of the risk that current market conditions could lead to a bear market, S&P believes the impact on US securities firms is likely to be modest.

"At a minimum, S&P would expect some drag on earnings of securities firms operating in the region," the agency says. "But that drag will not become a ratings issue for the large, well diversified firms."

S&P, however, warns of the potentially negative effects stemming from a rise in volatility and a decline in liquidity, owing to the increased inter-linkages between the different markets and the various financial instruments.

Samer Iskandar

Lira Telecom Argentina deal

INTERNATIONAL BONDS

By Samer Iskandar

Telecom Argentina yesterday spiced up an otherwise dull session, as borrowers held back in anticipation of the Humphrey-Hawkins testimony by Alan Greenspan, chairman of the US Federal Reserve.

The L350bn Telecom deal was a "blow-out", according to officials at Chase in Milan, joint lead manager with Banca Commerciale Italiana. The issue was quickly sold out, and there was "enough demand to justify an increase, if the Treasury market had not moved adversely," Chase said.

"Telecom Argentina is a magic name in Italy," said one Italian banker, "because investors associate it with Stet", the Italian telecommunications company which is a large shareholder.

By the end of trading the bonds were bid at 99.75, up from the 99.50 re-offer price.

Chase also said the deal achieved exceptionally attractive funding for the borrower, which swapped the proceeds into fixed-rate dollars at a final cost of 305 basis points over US Treasuries. This is roughly 70 basis points cheaper than the borrowing cost of the Republic of Argentina in the main European currencies, such as euros and D-Marks.

RANK GROUP, the UK leisure group, launched £100m of 10-year notes, later increased to £125m. HSBC Markets, joint lead manager with J.P. Morgan, said the launch had been helped by better than expected 1997 results. The notes tightened marginally from their launch spread of 125 basis points over gilts.

The dollar sector, which saw only one small deal, is expected to be revived today by a $1.5bn issue of five-year global bonds from Sony, the Japanese consumer electronics group.

The deal, jointly led by Goldman Sachs, J.P. Morgan and Merrill Lynch, will be priced to yield 57 or 58 basis points over Treasuries.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
■ US DOLLARS							
Muenchener Hypo(a)‡	100	(a1)	99.925	Mar 2000	0.04	-	Lehman Brothers
■ STERLING							
LW Rentenbank	200	6.375	99.578R	Mar 2005	0.30R	+25(6¾%Nov04)	Dresdner KB
Rank Group Finance(b)	125	7.25	99.065R	Mar 2008	0.40R	+125(7¼%-07)	HSBC Mkts/JP Morgan
■ FRENCH FRANCS							
Dresdner Finance	2bn	5.00	99.851R	Mar 2008	0.35R	+23(i)	BNP/Dresdner KB
■ ITALIAN LIRE							
Telecom Argentina‡	350bn	(c)	99.50R	Mar 2008	0.75R	-	BCI/Chase Manhattan Intl
■ LUXEMBOURG FRANCS							
Commerzbank	2bn	5.00§	102.55	Jun 2005	1.875	-	BCEE/BGL

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡ Floating-rate note. R: Fixed re-offer price; fees shown at re-offer level. a) Oeffentliche Pfandbrief. a1) 6-mth Libor –10bp. b) Spens call provision. c) 10% to 18/3/00, then 6-mth Libor +150bp. i) Over interpolated yield. § Long 1st coupon

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Feb 24	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	04/00	7.000	103.7590	5.11	+0.05	–0.03	–0.09	–1.41
	10/07	10.000	130.2100	5.81	+0.10	+0.01	–0.03	–1.69
Austria	09/99	7.000	104.3700	4.04	-	–0.01	–0.11	+0.39
	07/07	5.625	104.2000	5.05	+0.01	+0.05	–0.16	–0.45
Belgium	01/00	4.000	99.9600	4.02	+0.01	+0.04	–0.07	+0.46
	03/07	6.250	108.7200	5.03	+0.03	+0.05	–0.17	–0.62
Canada	09/99	4.750	98.5100	5.08	+0.02	+0.03	+0.35	+1.21
	06/07	7.250	112.6000	5.47	+0.03	+0.10	+0.14	–0.78
Denmark	12/99	6.000	103.1500	4.12	-	+0.01	–0.15	+0.25
	11/07	7.000	113.0500	5.25	+0.01	+0.03	–0.21	–0.98
Finland	01/99	11.000	106.2588	3.64	+0.01	+0.01	–0.14	+0.08
	04/06	7.250	115.1610	4.94	+0.01	–0.02	–0.25	–0.93
France	01/00	4.000	100.0600	3.97	+0.03	+0.06	–0.03	+0.41
	10/04	6.750	111.5100	4.69	+0.02	+0.05	–0.14	–0.30
	10/07	5.500	103.6800	4.98	+0.02	+0.05	–0.16	–0.43
	10/26	6.000	106.4200	5.54	+0.02	+0.05	–0.17	–0.73
Germany	09/99	4.000	100.2000	3.83	+0.04	+0.08	–0.04	+0.45
	11/04	7.500	115.5700	4.73	+0.02	+0.04	–0.15	–0.38
	07/07	6.000	107.6800	4.95	+0.02	+0.04	–0.16	–0.53
	07/27	6.500	113.7100	5.54	+0.02	+0.06	–0.19	–0.80
Ireland	04/99	6.250	101.5300	4.79	+0.03	+0.01	–0.04	–0.69
	08/06	8.000	118.8400	5.19	+0.01	+0.04	–0.23	–1.21
Italy	06/00	5.000	102.7200	4.68	+0.03	+0.01	–0.11	–1.75
	05/02	6.250	105.1800	4.87	+0.02	+0.02	–0.14	–1.79
	07/07	6.750	110.5700	5.30	+0.03	+0.04	–0.13	–1.90
	11/26	7.250	119.9000	5.81	+0.02	+0.03	–0.13	–2.13
Japan	03/00	6.400	111.6900	0.64	-	–0.08	–0.11	-
	12/02	4.800	116.6300	1.24	-	–0.08	–0.16	–0.50
	09/06	3.000	109.4400	1.68	-	–0.09	–0.20	–0.75
	09/17	3.000	107.7700	2.50	+0.01	–0.08	–0.18	–0.65
Netherlands	11/99	7.500	105.7700	3.94	+0.04	+0.03	–0.11	+0.37
	02/07	5.750	105.8823	4.92	+0.01	+0.07	–0.16	–0.82
New Zealand	02/00	6.500	97.3948	7.69	+0.04	+0.14	+0.33	–0.37
	11/06	8.000	106.9640	6.90	–0.01	+0.01	+0.16	–0.45
Norway	01/99	9.000	104.3100	4.14	-	-	–0.17	+0.36
	01/07	6.750	110.7700	5.20	+0.01	+0.05	–0.17	–0.45
Portugal	03/99	8.500	104.5355	4.08	+0.02	–0.06	–0.28	–1.64
	02/07	6.625	110.3332	5.16	+0.02	+0.01	–0.23	–1.48
Spain	07/99	7.400	103.9169	4.46	-	+0.15	+0.06	–1.07
	03/07	7.350	115.6378	5.15	+0.03	+0.03	–0.20	–1.53
Sweden	01/99	11.000	105.4360	4.59	–0.03	–0.05	–0.27	+0.20
	08/07	8.000	118.9120	5.39	–0.01	–0.04	–0.27	–1.28
Switzerland	03/00	5.000	107.3200	1.34	+0.03	+0.08	–0.31	–0.41
	06/07	4.500	114.1300	2.75	+0.02	+0.11	–0.28	–0.77
UK	08/99	6.000	99.3547	6.69	+0.03	+0.04	+0.09	+0.22
	11/04	6.750	103.2109	6.16	+0.06	+0.12	-	–0.88
	12/07	7.250	108.7734	6.05	+0.06	+0.14	–0.01	–1.10
	06/21	8.000	125.1700	5.96	+0.10	+0.10	–0.04	–1.33
US	10/99	5.625	100.0780	5.57	+0.09	+0.21	+0.14	–0.28
	11/04	7.875	112.2390	5.69	+0.08	+0.19	+0.04	–0.48
	08/07	6.125	102.9690	5.71	+0.07	+0.21	+0.03	–0.66
	08/27	6.375	105.5310	5.97	+0.03	+0.14	–0.04	–0.69
ECU	01/00	4.000	99.5900	4.22	+0.02	+0.01	–0.15	+0.06
	04/07	5.500	103.1200	5.06	+0.01	+0.03	–0.18	–0.81

London closing, *New York mid-day. Source: Interactive Data/FT Information

Yields: Local market standard. Annualised yield basis. Yields shown for Italy include withholding tax at 12.5 per cent payable by nonresidents

10 YEAR BENCHMARK SPREADS

Feb 24	Bid Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	5.81	+0.86	+0.16
Austria	5.05	+0.10	–0.60
Belgium	5.03	+0.08	–0.62
Canada	5.47	+0.52	–0.18
Denmark	5.25	+0.30	–0.40
Finland	4.94	–0.01	–0.71
France	[illegible]	+0.03	–0.67
Germany	4.95	-	–0.70
Ireland	5.19	+0.24	–0.46
Italy	5.30	+0.35	–0.35
Japan	1.66	–3.29	–3.99
Netherlands	4.92	–0.03	–0.73
New Zealand	6.90	+1.95	+1.25
Norway	5.20	+0.25	–0.45
Portugal	5.16	+0.21	–0.49
Spain	5.15	+0.20	–0.50
Sweden	5.39	+0.44	–0.26
Switzerland	2.75	–2.20	–2.90
UK	6.05	+1.10	+0.40
US	5.65	+0.70	-
ECU	5.06	+0.11	–0.59

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised yield basis.

EMERGING MARKET BONDS

Feb 24	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
■ EUROPE								
Croatia	02/02	7.000	BBB–	95.2500	8.42	+0.04	–0.42	+2.84
Poland	07/04	7.125	BBB–	102.2500	6.68	+0.06	–0.04	+1.06
Russia	06/07	10.000	BB–	91.4000	11.52	+0.17	–0.51	+5.88
■ LATIN AMERICA								
Argentina	09/27	9.750	BB	98.2000	9.93	+0.03	–0.50	+4.00
Brazil	05/27	10.125	BB–	95.7500	10.59	+0.05	–0.69	+4.66
Mexico	05/26	11.500	BB	120.8500	9.37	+0.04	–0.34	+3.46
■ ASIA								
China	07/06	7.750	BBB+	104.1250	7.07	+0.02	–0.18	+1.44
Philippines	10/16	8.750	BB+	95.2500	9.29	+0.10	–1.08	+3.62
Thailand	04/07	7.750	BBB–	93.5250	8.79	-	–1.51	+3.15
■ AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB–	101.5000	8.37	–0.06	+0.41	+2.84
South Africa	10/06	8.375	BB+	93.2500	8.66	+0.07	–0.10	+3.03
Turkey	09/07	10.000	B	99.2500	10.11	–0.10	+0.27	+4.47
■ BRADY BONDS								
Argentina	03/23	5.500	BB	75.6300	8.30	–0.01	–0.37	+2.43
Brazil	04/14	4.500	BB–	80.2500	9.77	+0.07	–0.73	+4.03
Mexico	12/19	6.250	BB	84.2500	7.76	+0.04	–0.13	+1.95
Venezuela	03/20	6.750	B+	85.8800	8.14	–0.04	–0.18	+2.32

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	103.90	103.88	–0.22	104.18	103.86	12,746	114,464
Jun	103.36	103.30	–0.22	103.52	103.24	1,181	18,433
Sep	103.12	103.06	–0.22	103.12	103.12	2	-

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Mar	CALLS Apr	CALLS Jun	PUTS Mar	PUTS Apr	PUTS Jun
101	3.10	2.57	2.81	-	0.06	0.31
102	2.10	1.67	2.02	-	0.15	0.51
103	1.12	0.89	1.35	0.02	0.37	0.84
104	0.25	0.37	0.83	0.15	0.85	1.31
105	0.01	0.11	0.47	0.91	1.59	1.93

Est. vol. total, Calls 12,320 Puts 11,819. Previous day's open int., Calls 80,199 Puts 151,916.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	107.47	107.47	-0.14	107.81	107.37	193567	257610
Jun	106.90	106.91	-0.13	107.16	106.84	10905	29339

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Apr	CALLS May	CALLS Jun	CALLS Sep	PUTS Apr	PUTS May	PUTS Jun	PUTS Sep
10650	0.79	1.02	1.22	1.35	0.36	0.61	0.81	1.64
10700	0.49	0.74	0.94	1.12	0.56	0.83	1.03	1.81
10750	0.28	0.51	0.70	0.91	0.87	1.10	1.29	2.10

Est. vol. total, Calls 19098 Puts 17701. Previous day's open int., Calls 138216 Puts 115409

■ NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	105.49	105.42	–0.10	105.59	105.35	85,290	235,357
Jul	105.23	105.09	–0.11	105.25	105.08	6,789	23,078

■ NOTIONAL GERMAN BOBL FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	105.51	105.44	-0.11	105.57	105.51	2,606	14,842
Jun	-	106.12	-0.11		-	-	430

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	118.49	118.32	-0.24	118.61	118.18	87669	102653
Jun	118.05	117.90	-0.21	118.20	117.90	7677	38978

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Jun	CALLS Sep	PUTS Jun	PUTS Sep
11750	1.41	1.55	1.01	1.45
11800	1.12	1.60	1.22	1.70
11850	[illegible]	1.37	1.48	1.97

Est. vol. total, Calls 7765 Puts 15615. Previous day's open int., Calls 29146 Puts 45206

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	108.88	108.63	–0.13	108.96	108.63	84,882	109,225
Jun	108.34	108.26	–0.13	108.47	108.41	2,158	8,685

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	123-11	122-31	-0-13	123-15	122-29	120493	149706
Jun	107-20	107-08	-0-12	107-24	107-06	51133	64870

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	CALLS Apr	CALLS May	CALLS Jun	PUTS Apr	PUTS May	PUTS Jun
107	0-54	1-11	1-25	0-28	0-59	1-10
108	0-28	0-45	0-59	1-12	1-29	1-43
109	0-11	0-25	0-37	1-59	2-09	2-21

Est. vol. total, Calls 853 Puts 1174. Previous day's open int., Calls 24463 Puts 11461

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	103.30	103.20	–0.16	103.36	103.20	48	10,359

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Mar	121-05	121-11	-0-09	121-16	120-31	511,556	532,152
Jun	120-29	121-02	+0-09	121-07	120-24	148,729	213,983
Sep	120-23	120-23	+0-09	120-27	120-20	12,982	36,885

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Mar	130.40			130.40	130.27	3715	na
Jun	129.90			129.90	129.75	3126	na

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

US CORPORATE BONDS

Feb 23	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
■ UTILITIES								
Pac Bell	07/02	7.25	AA–	104.8469	5.98	+0.02	+0.05	+0.48
NY Tel	08/25	7.00	A+	99.7931	7.01	+0.02	+0.05	+1.15
CWE	05/08	8.00	BBB	110.1119	6.62	+0.04	+0.05	+1.02
■ FINANCIALS								
GECC	05/07	8.75	AAA	118.4369	6.10	+0.03	+0.01	+0.50
Banc One	08/02	7.25	A+	104.5217	6.08	+0.01	+0.16	+0.58
US West	01/07	7.30	BBB+	105.9226	6.41	+0.04	–0.14	+0.81
■ INDUSTRIALS								
WMX Tech	04/99	6.25	A–	100.0000	6.16	+0.03	+0.09	+0.16
Wal Mart	05/02	6.75	AA	103.2509	5.86	+0.02	+0.05	+0.36
Dayton Hud	06/21	9.70	BBB+	132.3794	6.86	+0.02	–0.05	+1.02
■ AGENCIES								
FHLMC	04/07	7.14	N/A	108.5576	5.91	+0.04	+0.06	+0.31
SLMA	03/00	7.50	N/A	103.6810	5.57	+0.01	+0.06	+0.17
FNMA	02/18	8.95	N/A	131.4412	6.18	+0.02	+0.04	+0.32
FFCB	08/06	8.95	N/A	119.7155	[illegible]	+0.04	+0.06	+0.30
■ HIGH YIELD								
Stone Cont	02/01	9.88	B	101.5000	0.00	-	-	-
AK Stl	12/01	9.13	BB–	106.7500	0.00	-	-	-
Pacalta	06/04	10.75	B–	99.5000	0.00	-	-	-

New York closing. Source: Interactive Data/FT Information.
Standard & Poor's ratings. Yields: semi-annual basis.

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
Prime rate	8½	One month	-	Two year	5.55
Broker loan rate	7¼	Two month	-	Three year	5.55
Fed.funds	5½	Three month	5.31	Five year	5.61
Fed.funds at intervention	5½	Six month	5.37	10-year	5.64
		One year	5.40	30-year	5.94

INTERNATIONAL BONDS

Feb 24	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
■ EURO DM								
EIB	02/07	5.750	AAA	105.4600	4.98	+0.01	–0.20	+0.11
Spain	01/07	5.750	AA	104.9500	5.04	+0.02	–0.23	+0.17
Philip Morris	03/04	6.375	A	101.3400	5.11	+0.02	–0.15	+0.54
Finland FRN	09/02	3.520	AA	100.6379	3.94	+0.04	–0.12	–0.25
■ EURO FFR								
Austria	01/04	5.500	AAA	103.9600	4.71	+0.03	–0.12	+0.15
Abbey Nat	02/04	6.000	AA	106.0700	4.81	+0.01	–0.15	+0.25
Cred Foncier	09/04	9.125	A	120.3750	5.09	+0.01	–0.16	+0.53
SCIF FRN	12/01	3.750	AA–	99.7985	4.11	+0.02	–0.16	–0.01
■ EURO LIRA								
EIB	02/07	7.000	AAA	112.1000	5.27	+0.01	–0.16	+0.05
Abbey Nat	02/02	6.800	AA	106.4500	4.97	+0.02	–0.13	+0.20
Walt Disney	06/00	8.625	A	107.3099	5.17	+0.03	–0.11	+0.51
EIB FRN	08/01	5.625	AAA	100.0204	4.59	+0.04	–0.11	–0.09
■ EURO £								
EIB	12/07	7.625	AAA	109.2637	6.32	+0.06	–0.02	+0.22
Dresdner Bk	12/07	7.750	AA–	106.1492	6.86	+0.05	-	+0.76
British Gas	03/00	7.625	A+	100.9910	7.09	+0.08	+0.05	+0.40
Abbey Nat FRN	02/02	7.713	AA	100.0614	6.27	+0.06	–0.01	–0.12
■ EURO $								
EIB	04/07	7.250	AAA	108.7900	5.97	+0.05	+0.03	+0.33
ABN Amro	08/07	7.125	AA–	106.0643	6.39	+0.04	–0.01	+0.75
Quebec	01/07	7.000	A+	104.0000	6.40	+0.03	+0.02	+0.76
Citicorp FRN	02/04	5.938	A+	99.4000	6.06	+0.01	–0.06	+0.44
■ EURO C$								
Bayer L-Bk	08/04	9.500	AAA	119.6213	5.78	+0.04	+0.11	+0.19
Toronto	05/04	8.500	AA+	114.2225	5.72	+0.03	+0.15	+0.13
Bell Canada	07/98	10.625	A+	108.3774	6.65	+0.01	+0.26	+1.00
Deutsche B FRN	09/02	5.875	AAA	101.6475	5.48	+0.03	+0.02	–0.04
■ EURO-YEN								
World Bank	03/02	5.250	AAA	116.3390	1.12	-	–0.17	+0.20
Spain	03/02	5.750	AA	118.2403	1.14	-	–0.13	+0.22
Cred Foncier	08/02	4.750	A	113.2325	1.64	-	–0.12	+0.72
Italy FRN	07/99	0.797	AA	100.3595	0.31	-	–0.12	–0.05

London closing. Source: Interactive Data/FT Information
Standard & Poor's ratings. Yields: Local market standard/Annualised basis.

UK BONDS

FTSE Actuaries Govt. Securities

Price Indices UK Gilts	Tue Feb 24	Day's change %	Mon Feb 23	Accrued interest	xd adj. ytd
1 Up to 5 years (19)	119.94	–0.09	120.05	1.98	1.89
2 5-15 years (20)	161.75	–0.26	162.16	2.79	1.08
3 Over 15 years (5)	198.49	–0.33	199.14	2.57	1.14
4 Irredeemables (4)	246.59	–0.47	247.76	3.35	1.07
5 All stocks (48)	183.66	–0.22	184.30	2.47	1.49
Index-linked					
6 Up to 5 years (2)	215.94	–0.03	216.00	2.48	0.00
7 Over 5 years (10)	218.20	–0.18	218.60	0.92	1.85
8 All stocks (12)	216.85	–0.17	217.21	1.07	1.67

UK Indices

	Low coupon yield Feb 24	Low Feb 23	Low Yr. ago	Medium coupon yield Feb 24	Medium Feb 23	Medium Yr. ago	High coupon yield Feb 24	High Feb 23	High Yr. ago
5 yrs	6.21	6.15	6.93	6.30	6.24	6.89	6.33	6.27	6.94
15 yrs	6.01	5.98	7.03	6.03	6.00	7.33	6.14	6.11	7.35
20 yrs	6.01	5.98	7.41	6.02	5.99	7.36	6.13	6.10	7.39
Irred.†	6.13	6.10	7.46						

	Inflation 5% Feb 24	Feb 23	Yr. ago	Inflation 10% Feb 24	Feb 23	Yr. ago
Up to 5 yrs	2.59	2.67	3.01	1.90	1.88	2.29
Over 5 yrs	2.97	2.98	3.39	2.76	2.74	3.18

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Feb 24	Feb 23	Feb 20	Feb 19	Feb 18	Yr ago	High*	Low*
Govt. Secs. (UK)	103.36	103.64	103.80	103.89	103.93	96.40	104.10	93.31
Fixed Interest	139.46	139.81	139.76	139.81	139.89	119.98	139.96	115.32

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UK GILTS PRICES

	Notes	Yield Int	Yield Red	Price £	+ or –	52 week High	52 week Low
Shorts* (Lives up to Five Years)							
Treas 4¾pc 1998‡‡		3.98	7.44	116[illegible]	-	118[illegible]	113[illegible]
Treas 7¼pc 1998‡‡		7.25	[illegible]	100	-	101[illegible]	100
Treas 15½pc '98‡‡		14.79	7.03	104[illegible]	[illegible]	113[illegible]	104[illegible]
Exch 12pc 1998		11.60	7.02	103[illegible]	[illegible]	108[illegible]	103[illegible]
Treas 9½pc 1999‡‡		9.30	6.95	102[illegible]	[illegible]	105[illegible]	102[illegible]
Treas Flt Rate 1999‡‡		-	-	100[illegible]	-	100[illegible]	100[illegible]
Exch 12¼pc 1999		11.61	6.91	105½	[illegible]	110[illegible]	105½
Treas 10½pc 1999		10.07	6.80	104[illegible]	[illegible]	107[illegible]	104[illegible]
Treas 6pc 1999‡‡		6.08	6.70	99[illegible]	[illegible]	99[illegible]	98[illegible]
Conv 10¼pc 1999		9.70	6.72	105[illegible]	[illegible]	108[illegible]	105[illegible]
Treas 8½pc 2000	♣	8.22	6.67	103[illegible]	[illegible]	104[illegible]	102[illegible]
Conv 9pc 2000‡‡		8.62	6.64	104[illegible]xd	[illegible]	106[illegible]	103[illegible]
Treas 13pc 2000		11.45	6.72	113[illegible]	[illegible]	118[illegible]	113[illegible]
Treas 14pc 1998-1		13.78	7.12	101[illegible]	-	109[illegible]	101[illegible]
Treas 8pc 2000‡‡		7.71	6.50	103[illegible]	[illegible]	104[illegible]	102[illegible]
Treas Flt Rate 2001		-	-	100[illegible]	[illegible]	100[illegible]	100[illegible]
Treas 10pc 2001		9.15	6.56	109[illegible]xd	[illegible]	112[illegible]	109[illegible]
Conv 9¾pc 2001‡‡	♣	8.73	6.55	108[illegible]	[illegible]	[illegible]	107[illegible]
Conv 9¾pc 2001	♣	8.88	6.55	109[illegible]	[illegible]	110[illegible]	108[illegible]
Treas 7pc 2001‡‡		6.87	6.39	101[illegible]	[illegible]	102[illegible]	98[illegible]
Exch 12pc 1999-2	♣	11.51	7.07	104[illegible]	[illegible]	109[illegible]	104[illegible]
Conv 10pc 2002	♣	8.84	6.27	113[illegible]	[illegible]	113[illegible]	109[illegible]
Treas 7pc 2002‡‡		6.82	6.28	102[illegible]	[illegible]	103[illegible]	98[illegible]
Five to Fifteen Years							
Conv 9½pc 2002	♣	8.50	6.29	111[illegible]	[illegible]	112[illegible]	108[illegible]
Treas 9¾pc 2002		8.67	6.35	113[illegible]xd	[illegible]	122[illegible]	108[illegible]
Exch 9pc 2002	♣	8.13	6.33	110[illegible]	[illegible]	111[illegible]	106[illegible]
Conv 9¾pc 2003‡‡	♣	8.48	6.34	114[illegible]	[illegible]	115[illegible]	110[illegible]
Treas 8pc 2003‡‡		7.42	6.12	107[illegible]	[illegible]	108[illegible]	102[illegible]
Treas 6¾pc 2003		6.38	6.22	101[illegible]	[illegible]	102[illegible]	100[illegible]
Treas 13¾pc 2000-3	♣	11.89	6.60	115[illegible]	[illegible]	119[illegible]	115[illegible]
Treas 10pc 2003		8.53	6.27	117[illegible]	[illegible]	118[illegible]	111[illegible]
Treas 11½pc 2001-4		10.13	6.55	113½	[illegible]	116[illegible]	112[illegible]
Treas 10pc 2004	♣	8.41	6.27	118[illegible]	[illegible]	119[illegible]	113
Funding 3½pc 1999-4		3.83	5.10	91[illegible]	[illegible]	92	82[illegible]
Conv 9½pc 2004		8.07	6.21	117[illegible]	[illegible]	118[illegible]	109[illegible]
Treas 6¾pc 2004‡‡		6.53	6.14	103[illegible]	[illegible]	104	95[illegible]
Conv 9½pc 2005		7.99	6.19	118[illegible]	[illegible]	119[illegible]	110[illegible]
Exch 10½pc 2005	♣	8.35	6.17	125[illegible]	[illegible]	126[illegible]	117[illegible]
Treas 12½pc 2003-5		9.65	6.28	129[illegible]	[illegible]	130[illegible]	124[illegible]
Treas 8½pc 2005‡‡		7.43	6.09	114[illegible]	[illegible]	115[illegible]	104[illegible]
Conv 9½pc 2006	♣	7.84	6.05	124[illegible]	[illegible]	125[illegible]	113[illegible]
Treas 7½pc 2006‡‡		6.85	6.09	109[illegible]	[illegible]	110[illegible]	98[illegible]
Treas 7¾pc 2006‡‡		7.01	6.14	110[illegible]	[illegible]	111[illegible]	99[illegible]
Treas 8pc 2002-6‡‡		7.52	6.38	106[illegible]	[illegible]	106[illegible]	100[illegible]
Treas 11¾pc 2003-7		9.59	6.32	122[illegible]	[illegible]	123[illegible]	119
Treas 8½pc 2007‡‡		7.26	6.11	116[illegible]	[illegible]	117[illegible]	105[illegible]
Treas 7¼pc 2007‡‡		6.66	6.03	108[illegible]	[illegible]	109[illegible]	96[illegible]
Treas 13½pc 2004-8	♣	9.94	6.32	135[illegible]	[illegible]	136[illegible]	131[illegible]
Treas 9pc 2008‡‡		7.32	6.04	122[illegible]	[illegible]	124[illegible]	109[illegible]
Treas 8pc 2009		6.98	6.05	118[illegible]	[illegible]	117[illegible]	101
Treas 6¼pc 2010‡‡		6.15	6.06	101[illegible]	[illegible]	102[illegible]	86[illegible]
Conv 9pc Ln 2011‡‡		7.11	6.07	126½	[illegible]	127[illegible]	109[illegible]
Treas 9pc 2012‡‡		7.05	6.09	127[illegible]	[illegible]	123[illegible]	110[illegible]
Treas 5½pc 2008-12‡‡		5.73	5.94	95[illegible]	[illegible]	96[illegible]	80[illegible]
Treas 7¾pc 2012-15‡‡		6.75	6.11	115[illegible]	[illegible]	116[illegible]	98[illegible]
Over Fifteen Years							
Treas 8pc 2013‡‡		6.72	6.08	119[illegible]	[illegible]	120[illegible]	101[illegible]
Treas 8pc 2015‡‡		6.56	6.00	121[illegible]	[illegible]	122[illegible]	101[illegible]
Treas 8¾pc 2017‡‡		6.69	6.03	130[illegible]xd	[illegible]	132[illegible]	108[illegible]
Exch 12pc 2013-17	♣	7.52	6.08	159[illegible]	[illegible]	160[illegible]	136[illegible]
Treas 8pc 2021‡‡		6.39	5.97	125[illegible]	[illegible]	126[illegible]	101[illegible]
Treas 6pc 2028		5.86	5.85	102[illegible]	[illegible]	103[illegible]	99[illegible]
Undated							
Consols 4pc		6.33	-	63[illegible]	[illegible]	64[illegible]	49[illegible]
War Loan 3½pc‡‡		6.07	-	57[illegible]	[illegible]	58½	44[illegible]
Conv 3½pc '61 Aft.		4.69	-	74[illegible]	[illegible]	77[illegible]	61[illegible]
Treas 3pc '66 Aft.		6.54	-	45[illegible]	[illegible]	46[illegible]	36[illegible]
Consols 2½pc		6.12	-	40[illegible]	[illegible]	41[illegible]	31[illegible]
Treas. 2½pc		6.23	-	40[illegible]	[illegible]	40[illegible]	30[illegible]

Index-Linked	Notes (b)	Yield (1)	Yield (2)	Price £	+ or –	52 week High	52 week Low
2½pc '99	♣	1.55	2.20	190[illegible]	[illegible]	191[illegible]	179[illegible]
2½pc '01	(78.3)	2.57	3.00	196[illegible]	[illegible]	197[illegible]	185[illegible]
2½pc '03	(78.8)	[illegible]	3.04	194	[illegible]	194[illegible]	181
4⅛pc '04‡‡	(135.6)	2.80	2.99	125[illegible]	[illegible]	125[illegible]	117[illegible]
2pc '06	(69.5)	2.81	3.05	206[illegible]	[illegible]	208[illegible]	190[illegible]
2½pc '09	(78.8)	2.93	3.04	188[illegible]	[illegible]	189[illegible]	170[illegible]
2½pc '11	(74.6)	2.95	3.05	197[illegible]xd	[illegible]	198[illegible]	176[illegible]
2½pc '13	(89.2)	2.97	3.05	163[illegible]	[illegible]	164[illegible]	145[illegible]
2½pc '16	(81.6)	2.97	3.05	177[illegible]	[illegible]	178[illegible]	154[illegible]
2½pc '20	(83.0)	3.00	3.07	171[illegible]	[illegible]	173[illegible]	147[illegible]
2½pc '24‡‡	(97.7)	2.99	3.05	144[illegible]	[illegible]	145[illegible]	122[illegible]
4⅛pc '30‡‡	(135.1)	2.98	3.02	142[illegible]	[illegible]	143[illegible]	120[illegible]

Prospective real redemption rate on projected inflation of (1) 5% and (2) 3%. (b) Figures in parentheses show RPI base for indexing (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in February 1987. Conversion factor 3.945. RPI for June 1997: 157.5 and for January 1998: 159.5.

Other Fixed Interest

	Notes	Yield Int	Yield Red	Price £	+ or –	52 week High	52 week Low
Asian Dev 10¼pc 2009		7.86	6.36	130[illegible]	—	130[illegible]	116[illegible]
B'ham 11½pc 2012		8.07	6.90	142½	—	143[illegible]	129½
Leeds 13½pc 2006		9.47	-	142½	—	144½	133½
Liverpool 3½pc Irred.		6.86	-	51	—	51	40
LCC 3pc '20 Aft.		6.67	-	45xd	—	45	35
Manchester 11½pc 2007		8.61	6.82	133½	—	134½	122½
Met. Wtr 3pc 'B'		3.45	5.75	87xd	—	87	80
N'wide Anglia 3⅞pc 2021		-	3.76	167[illegible]	—	169[illegible]	142[illegible]
4⅛pc IL 2024		-	3.79	158[illegible]xd	—	160[illegible]	137[illegible]

● 'Tap' stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Prospective real index-Linked redemption yields are calculated by HSBC Greenwell from Bank of England closing prices. ♣ Indicative price.

CURRENCIES AND MONEY

Dollar firms on Greenspan testimony

MARKETS REPORT

By Richard Adams

The dollar and sterling were firmer against other major currencies in late foreign exchange trading, after yesterday's testimony by Alan Greenspan, the US Federal Reserve chairman.

Dealers said Mr Greenspan's testimony added about a quarter of a pfennig to the dollar's rate against the D-Mark. But the dollar later fell back, as traders digested his comments about the "finely balanced" US economy and the threats facing it.

Against the D-Mark, the dollar ended trading hours in London yesterday at DM1.8019, slightly better than its close on Monday of DM1.7988. In New York, the dollar slipped below DM1.80 at noon.

The pound also strengthened against the core European currencies. After its sharp fall on Monday, sterling clawed back 1.2 pfennig against the D-Mark, to end in London at DM2.9681.

Dealers said that the D-Mark suffered from weak inflation figures in Germany, and profit-taking against the yen. The D-Mark was Y70.96 in Europe, after retreating from the previous close of Y71.13.

Elsewhere in Europe, Poland's zloty climbed to a nine-month high yesterday, as the central bank appeared to have avoided selling the currency ahead of the first meeting of its new monetary council today.

Strong foreign buying of Polish equities and government bills saw the zloty rise over 2.50 per cent above the centre of its trading band.

■ Pound in New York

Feb 24	—Latest—	— Prev. close —
£ spot	1.6490	1.6475
1 mth	1.6467	1.6452
3 mth	1.6413	1.6435
1 yr	1.6225	1.6206

■ Addressing the House Banking Committee in Washington, Mr Greenspan said he saw "something different" occuring in the US economy, but denied it added up to the start of a new economic era.

"There is no question that there is something different about what is going on in this economy," he said.

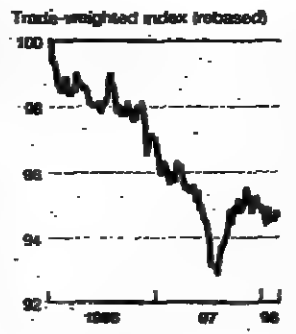
The market was on alert for any mention of deflation. Instead, Mr Greenspan said the fall-out from Asia might hurt economic growth "more than is desirable", although he also warned the Asia effect might not be enough to cool domestic demand.

The dollar showed little reaction to news that January's consumer price index was unchanged, while the core rate – excluding food and energy – rose by 0.2 per cent. Both were in line with market expectations.

But traders said the dollar may have been helped by a strong US consumer confidence index for February, released at the same time as Mr Greenspan's testimony. The index rose its highest in nearly 30 years, to 138.3 from a revised 128.3 in January.

French franc

Trade-weighted index (rebased)



Source: Datastream/ICV

■ Anyone thinking forex dealers can give up and go home once the members of the single currency announce their Emu conversion rates in May should think again.

Under the Maastricht Treaty, the pre-announced rates will not be binding – they are only recommendations. That is because Maastricht says Emu must not change the external value of the Ecu – and the value of the Ecu was fixed at 1:1 to the euro at the 1995 Madrid summit.

The value of the Ecu is made up of the value of its individual member currencies. The value of each constituent currency of the Ecu must not change as a result of the launch of the euro.

So if, on the introduction of the Euro in January next year, there is a difference between the December 31 market rate of a member currency against the Ecu and May's pre-announced rate for the Euro, then the Ecu rate is to be used.

Ministers have no choice but to stick with the prevailing Ecu rate under the Treaty. But the 1:1 Ecu-euro exchange rate requirement means there will be a one-off arbitrage opportunity.

The situation could give rise to speculative trading. Central banks could then be distressed sellers or buyers of currency on December 31 or previous days. This might give rise to one-way bets for the market – and with the member states holding the losing tickets.

■ OTHER CURRENCIES

Feb 24	£	$
Czech Rp	56.0124 - 55.7128	33.7720 - 33.8120
Hungary	341.443 - 341.735	207.350 - 207.400
Iran	4943.10 - 4940.10	3000.00 - 3000.00
Kuwait	0.5024 - 0.5030	0.3052 - 0.3053
Peru	4.6503 - 4.6580	2.8240 - 2.8270
Poland	5.8211 - 5.8263	3.5350 - 3.5360
Russia	9.9732 - 9.9818	6.0565 - 6.0580
UAE	6.0480 - 6.0522	3.6723 - 3.6731

■ France's foreign trade surplus more than doubled in 1997, to FFr173bn from FFr88.7bn in 1996 – helped by the franc's trade-weighted decline of nearly 4 per cent since the start of 1996.

POUND SPOT FORWARD AGAINST THE POUND

Feb 24		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	20.8832	+0.0863	746 - 918	20.9074	20.7661	20.8205	3.5	20.6886	3.7	20.1838	3.3	102.4
Belgium	(BFr)	61.2446	+0.2105	126 - 765	61.3100	60.8840	61.0856	3.5	60.6741	3.7	59.1447	3.4	101.9
Denmark	(DKr)	11.3148	+0.0479	097 - 199	11.3289	11.2508	11.283	3.4	11.215	3.5	10.9809	3.1	104.4
Finland	(FM)	9.0103	+0.0374	046 - 160	9.0170	8.9900	8.9818	3.8	8.922	3.9	8.6917	3.5	80.8
France	(FFr)	9.9485	+0.0351	446 - 544	9.9606	9.8947	9.9192	3.7	[illegible]	3.8	9.6025	3.5	105.2
Germany	(DM)	2.9681	+0.0121	669 - 692	2.9726	2.9507	2.9591	3.7	2.9397	3.8	2.8646	3.5	[illegible]

[illegible]

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Feb 24		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P Morgan index
Europe													
Austria	(Sch)	12.6780	+0.0232	766 - 794	12.6900	12.6210	12.6578	1.9	12.5755	2.0	12.459	1.8	102.3
Belgium	(BFr)	37.1810	+0.041	730 - 890	37.2100	37.0470	37.1245	1.8	36.9375	2.0	36.491	1.9	102.0
Denmark	(DKr)	6.8697	+0.0131	691 - 701	6.8754	6.8370	6.8595	1.7	6.8358	1.8	6.7626	1.6	103.9
Finland	(FM)	5.4701	+0.0099	683 - 719	5.4745	5.4450	5.4605	2.1	5.4435	2.2	5.3626	2.0	80.1
France	(FFr)	6.0403	+0.0073	391 - 414	6.0467	6.0146	6.0304	2.0	6.0092	2.1	[illegible]	1.9	104.9

[illegible]

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Mar	CALLS Jun	CALLS Sep	PUTS Mar	PUTS Jun	PUTS Sep
9400	0.07	1.10	1.65	0.05	0.05	0.07
9425	0.01	0.86	1.41	0.24	0.06	0.08
9450	0	0.64	1.17	0.48	0.09	0.09

Est. vol. total, Calls 20842 Puts 7036. Previous day's open int., Calls 309121 Puts 229893

CROSS RATES AND DERIVATIVES

[illegible]

UK INTEREST RATES

[illegible]

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Mar	CALLS Jun	CALLS Sep	PUTS Mar	PUTS Jun	PUTS Sep
9225	0.21	0.33	0.53	0.01	0.04	0.07
9250	0.03	0.15	0.34	0.08	0.11	0.13
9275	0	0.05	0.19	0.30	0.26	0.23

Est. vol. total, Calls 2240 Puts 1776. Previous day's open int., Calls 248131 Puts 258505

BASE LENDING RATES

	%		%		%
Adam & Company	7.25	Exeter Trust Limited	8.25	●Singer & Friedlander	7.25
Allied Irish Bank (GB)	7.25	Financial & Gen Bank	8.00	●Smith & Williamson	7.25
●Henry Ansbacher	7.25	●Robert Fleming & Co	7.25	Sun Banking Corp Ltd	7.25
Banco Bilbao Vizcaya	7.25	●Guinness Mahon	7.25	TSB	7.25
Bank of Cyprus	7.25	Habib Bank AG Zurich	7.25	United Bank of Kuwait	7.25
Bank of Ireland	7.25	●Hambros Bank	7.25	Unity Trust Bank Plc	7.25
Bank of India	7.25	Heritable & Gen Inv Bk	7.25	Whiteaway Laidlaw	7.25
Bank of Scotland	7.25	C. Hoare & Co	7.25	Yorkshire Bank	7.25
Barclays Bank	7.25	Hongkong & Shanghai	7.25		
Brit Bk of Mid East	7.25	Investec Bank (UK) Ltd	7.25		
●Brown Shipley & Co Ltd	7.25	Julian Hodge Bank	7.25		
Citibank NA	7.25	●Leopold Joseph & Sons	7.25		
Clydesdale Bank	7.25	Lloyds Bank	7.25		
The Co-operative Bank	7.25	Midland Bank	7.25		
Coutts & Co	7.25	NatWestminster	7.25		
Cyprus Popular Bank	7.25	●Rea Brothers	7.25		
Duncan Lawrie	7.25	Royal Bk of Scotland	7.25		
		Scottish Widows Bank	7.25		

● Members of London Investment Banking Association
* In administration

WORLD INTEREST RATES

[illegible]

Interfinance Crédit National N.V.

US$100,000,000
Guaranteed floating rate undated unsecured subordinated non-cumulative capital notes

In accordance with the terms and conditions of the notes the rate of interest for the interest period 25 February 1998 to 25 August 1998 has been fixed at 9.1125091 13% per annum. Interest payable on 25 August 1998 will be US$45,815.67 on each US$1,000,000 principal amount of the notes.

Agent: Morgan Guaranty Trust Company

JPMorgan

CS FIRST BOSTON GROUP

CS First Boston Finance, B.V.

US$200,000,000
Guaranteed subordinated floating rate notes August 2003

Guaranteed on a subordinated basis by
CS First Boston Group, Inc.

Notice is hereby given that for the interest period 25 February 1998 to 25 August 1998 the notes will carry an interest rate of 5.5% per annum. Interest payable on 25 August 1998 will amount to US$27.65 per US$1,000 note and US$276.53 per US$10,000 note and US$2,765.28 per US$100,000 note.

Agent: Morgan Guaranty Trust Company

JPMorgan

COMMODITIES AND AGRICULTURE

Sharp volatility seen in copper

By Gary Mead

Low international prices for copper are biting into mining operations, yesterday forcing the Chilean company El Bronce to suspend plans for a new $20m project planned to start production in late 1999.

Although a small project – annual output was for some 7,000 tonnes – the postponement symbolises the current bearish market view of copper's medium-term future. But some analysts and traders believe there may be sharp volatility in the short-term.

"We are looking for a copper surplus this year of about 400,000 tonnes," said Martin Squires, analyst with Rudolf Wolff, which he describes as a "copper bear for the remainder of the century". But he believes a significant upwards spike could occur in the second quarter of this year, with "$2,000 a tonne being easily achievable". Three-month copper was last $2,000 a tonne in early October 1997, but has steadily fallen since then to $1,629 yesterday.

While the fundamentals point to heavy oversupply this year, "supplies of scrap copper are very tight right now, and mining is still suspended at Ok Tedi [the large copper concentrate mine in Papua New Guinea, in which BHP is a majority shareholder]; although there is an onrush of supply, we should not rule out a brief, short-covering rally," said Tony Warwick-Ching, analyst with Flemings Research.

According to some traders, large investment funds now hold uncommonly large "short" positions in the copper market (that is, they have sold metal they do not own in the hope the price will fall and they can buy it later and keep the difference). Coinciding with tight scrap supplies and the possibility of large-scale Chinese buying at such relatively low prices, could induce a scramble for metal and a significant price spike, they say.

Lawrence Eagles, at brokers GNI, thinks the fundamentals in the copper market indicate the need for mine closures to bring supply and demand into greater balance. But he also thinks a short, and possibly very sharp, price rise could happen.

"It could be in the next couple of weeks, or the next couple of months. The price needs to get down to 70 cents a pound, about $1,540 a tonne, before we see significant mine closures. That news could be the trigger for opportunities on the upside."

Net benefit from El Niño in Peru

In the northern Peruvian port of Paita, even the pelicans are listless. With ocean temperatures up to eight degrees centigrade higher than normal, the usual abundance of fish close to the shore has vanished. The small boats that form the bulk of the anchovy and sardine fleet lie idle and weather-beaten fishermen console themselves with ice-creams.

A ban on anchovy fishing, a precaution at this time of year to protect the species, is for once academic.

"Essentially, there has been no anchovy fished since El Niño's second peak in November," says Richard Diaz, general manager of SNP, Peru's national fisheries society.

High ocean temperatures, especially off the northern coast near Ecuador, have pushed anchovy shoals to seek colder waters well offshore and out of range of the Peruvian fleet of small purse-seiners.

After 10 relatively normal months, almost no anchovy at all was caught in November and December. SNP estimates that Peru's total catch for 1997 was 7.67m tonnes, 18.9 per cent lower than 1996's 9.48m tonnes.

Against all the odds, however, 1997 closed an excellent year for Peruvian fishing, with exports topping $1.36bn, 21.5 per cent up on 1996's previous record.

Silver lining: Peruvian fishermen struggle to launch their boat but El Niño has raised prices

Thanks to El Niño, fish meal – processed primarily from anchovy, with small quantities of sardine and mackerel – brought in a record $991m last year, according to the SNP.

Fears of shortages resulting from the warm current's negative impact on fish stocks drove prices on the international markets to records of more than $700 a tonne of prime quality meal.

With the anchovy catch already at its effective limits for sustainability of the biomass, some of the more forward looking Peruvian fishing companies are turning their attention to canning, one of the industry's mainstays in the 1970s. Last year, 382,000 tonnes of fish caught went for canning, almost 60 per cent up on 1996.

Illustrating the rapidly increasing efficiency of some of the newer plants coming on stream, output of canned fish more than doubled, reaching some 11m cases. "Not since 1981 – the last good fishing year before the 1982-83 El Niño – has Peru produced so much canned fish," says Mr Diaz.

The trend looks set to continue. Pesquera Austral, Peru's second largest fish meal and fish oil producer, is investing heavily in canning. In 1997, it inaugurated its first canning facility in the norther port of Paita, alongside its more traditional processing activities, and produced some 3m cases of canned fish last year.

Meanwhile, Austral invested almost $40m in a can manufacturing facility in Lima. It will sell empty cans to local competitors and plans to export to Chile, Ecuador and Bolivia.

Peruvian fishing companies have set their sights on increasing exports to China and south-east Asia, already important customers for fish meal. Jose Sarmiento, SNP president, is optimistic for across-the-board rises in exports to countries in the Asia Pacific Economic Co-operation forum, of which Peru is to become a member later this year.

While there is little prospect of increasing the anchovy catch, the SNP estimates that currently unexploited species could add another 1.1m to 2.88m tonnes of fish for processing: the greatest potential is in horse and jack mackerel, suitable for fish meal or canning, and giant squid. Although the squid catch has increased dramatically in recent years via concessions granted to Korean and Japanese fishing companies, it remains to be fully exploited.

El Niño has brought further compensations. In the hardest hit north, warmer waters have produced sea shrimp and hake.

In an unpredictable sector, with the added imponderable of the El Niño current, 1998 output can only be guessed at, say SNP officials. "But we hope that by April, the peak will be over, the cold currents returning and the fishing boats out again," says Mr Diaz.

Sally Bowen

Bearish mood in base metals

MARKETS REPORT

By Gary Mead

The generally bearish mood in base metals persisted on the London Metal Exchange as the price for three-month copper first dipped to a low of $1,616 a tonne before recovering to close unchanged at $1,629.

Nickel came under severe pressure, losing $140 to end at $5,260 a tonne – a four-year nadir – with some traders anticipating a slide beneath $5,000 in coming days.

The fragility of gold continued, with the London afternoon "fix" at $291.40 a troy ounce being 90 cents lower than that of the morning.

A comment by Jean-Claude Trichet, governor of France's central bank, that "we have no intention of selling any gold, or in any way downplaying the role of gold as a reserve asset," in the magazine Central Banking, appeared to have been shrugged off by the market, burdened as it is by fears of central bank reserve sales.

Brokers GNI said in a research note that "gold will soon start to receive positive news about mine closures".

● Crude oil prices on London's International Petroleum Exchange shuffled sideways in late afternoon trading, with short-covering and profit-taking helping it to stay above recent lows, Reuters reports.

The benchmark Brent blend for April delivery was up 7 cents on the day at $13.90 a barrel, well below the intra-day high of $14.10.

"I think there is a sentiment that we've seen all the bad news [for prices] that we're going to see this week ... though, fundamentally we're still in a bear market," one broker said.

India to fight US move on basmati rice

By Kunal Bose in Calcutta

The Indian government is taking steps to fight the recent decision by the US to grant a patent to the term "basmati" to RiceTec, a Texan-based US company.

Naresh Chandra, India's ambassador to the US, says he is confident India will be able to prove to that "basmati" refers to a variety of rice that is typically Indian, and this will induce the US to revise the patent granted to RiceTec.

According to M.S. Swaminathan, a leading Indian agricultural scientist, the marketing of "long grain American basmati" – the hybrid variety for which RiceTec received its patent – could badly hit basmati rice exports from the Indian sub-continent, particularly to the European Union.

"India should contest the marketing of such rice as basmati by the US company, as the larger question of the right to plant protection is involved," he said.

He added that as India lacked relevant legislation in this area, it would find it difficult to protect its plant varieties and genetic materials.

Mr Swaminathan said the country did not have the laws to protect a strain like Poosa basmati, a hybrid between basmati rice and a dwarf variety, which accounted for one-third of India's annual basmati rice exports of nearly 480,000 tonnes. India currently exports some 45,000 tonnes of basmati rice a year to the US.

RiceTec's view is that "Basmati is a generic name for a type of rice, as durum is for a kind of wheat. Patenting of new lines and grains is normal in agriculture. The patent covers new basmati lines and grains which are an improvement over the previous types of American basmati the company had developed."

The US Patent Office said RiceTec was given a patent for a cultivar of basmati rice as it had earlier patented strains of corn or other new mutations of grains. But India was within its "rights to challenge the patent."

The Indian government is now considering whether to ask the US patent office to review the case, or to complain to the World Trade Organisation, on the basis that patent is a *prima facie* violation of Article 22 of the international treaty on Trade Related Intellectual Property Rights, or Trips.

Suman Sahai, a geneticist and president of Gene Campaign in India (a non-governmental organisation), which is lobbying the Indian government to take action on the issue, has said that as US sparkling wine producers cannot market their product as champagne, nor should US rice producers market their rice as basmati.

An Indian government official said the possibility of seeking to have the term basmati defined as relating solely to a geographical part of the Indian sub-continent was being explored.

"We have got recorded evidence to show that basmati rice was traded and used as a quality benchmark in parts of India a century ago," he said.

"The code of practice for rice in the UK, the largest market for basmati rice in Europe, describes long grain aromatic rice grown only in India and Pakistan as basmati rice. Similarly, Saudi Arabia allows basmati rice originating only in the Indian sub-continent to be sold as basmati rice."

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1421-22	1439-40
Previous	1420.5-1.5	1438-9
High/low		1443/1433
AM Official	1415-16	1434-34.5
Kerb close		1440.5-41.0
Open int.	262,632	
Total daily turnover	68,541	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1253-58	1280-81
Previous	1258-63	1280-85
High/low		1284/1275
AM Official	1252-53	1280-81
Kerb close		1279-80
Open int.	4,855	
Total daily turnover	1,321	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	506.5-07.0	521-22
Previous	504.5-5.5	519-20
High/low		524/515
AM Official	503-04	518-19
Kerb close		523-24
Open int.	32,329	
Total daily turnover	8,405	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	5210-20	5305-10
Previous	5325-35	5415-20
High/low		5420/5248
AM Official	5245-50	5340-45
Kerb close		5260-65
Open int.	58,502	
Total daily turnover	19,766	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5265-75	5290-95
Previous	5265-75	5290-300
High/low		5295/5280
AM Official	5260-65	5275-80
Kerb close		5280-85
Open int.	14,277	
Total daily turnover	3,039	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1019.5-20.5	1044-45
Previous	1013.5-4.5	1038.5-9.0
High/low		1044/1027
AM Official	1007-08	1032-33
Kerb close		1043-44
Open int.	73,807	
Total daily turnover	20,541	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1601-02	1628-29
Previous	1616-17	1642.5-3.5
High/low		1632/1616
AM Official	1595-96	1622.5-23.5
Kerb close		1629.5-30.0
Open int.	148,235	
Total daily turnover	64,456	

■ LME AM Official £/$ rate: 1.6473
LME Closing £/$ rate: 1.6475

Spot: 1.6465 3 mths: 1.6396 6 mths: 1.6326 9 mths: 1.6260

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	72.35	-0.30	72.65	72.20	447	497
Mar	72.95	-0.20	73.50	72.20	8,530	22,289
Apr	73.10	-0.25	73.10	72.90	70	2,249
May	73.50	-0.20	73.70	73.15	6,167	19,941
Jun	74.10	-0.20	74.50	74.30	37	2,028
Jul	74.45	-0.20	74.70	74.20	665	6,411
Total					18,529	75,038

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	291.70-292.20		
Opening	292.50-292.90		
Morning fix	292.35	177.634	425.662
Afternoon fix	291.40	176.788	423.696
Day's High	292.70-293.10		
Day's Low	290.60-291.00		
Previous close	293.20-293.70		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	3.88	6 months	3.73
2 months	3.90	12 months	3.49
3 months	3.90		

Silver Fix	p/troy oz.	US cts equiv
Spot	388.20	639.00
3 months	387.95	635.85
6 months	387.65	632.55
1 year	388.60	626.05

Gold Coins	$ price	£ equiv
Krugerrand	293-295	178-179
Maple Leaf	-	-
New Sovereign	68-70	41-42

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	291.7	-2.4	293.8	291.3	650	223
Mar	291.7	-2.4	294.1	293.5	-	-
Apr	292.7	-2.0	295.0	291.8	33,698	86,677
Jun	294.8	-1.9	296.6	293.9	1,105	16,454
Aug	296.5	-1.9	298.1	296.2	34	5,878
Oct	298.5	-1.8	298.4	298.4	141	3,223
Total					36,358	178,488

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	373.8	+0.1	374.9	372.0	2,631	9,492
Jul	371.5	+0.1	372.0	370.5	117	939
Oct	370.5	+0.1	-	-	-	359
Jan	370.5	+0.1	373.0	368.0	13	37
Total					2,761	10,827

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	235.75	-	236.00	234.00	605	2,140
Jun	234.00	+1.60	235.00	233.25	614	2,319
Sep	232.00	+1.60	230.00	230.00	1	406
Total					1,219	4,865

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	633.2	-13.6	-	-	18,251	40
Mar	633.5	-13.8	652.0	629.0	23,165	35,135
May	635.5	-10.6	651.0	629.0	10,879	34,910
Jul	634.5	-10.6	645.0	631.0	985	14,027
Sep	635.0	-11.1	633.0	633.0	37	4,839
Dec	635.5	-11.6	644.0	633.0	255	10,491
Total					35,572	108,168

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	15.44	+0.07	15.56	15.20	80,132	116k
May	15.76	+0.01	15.91	15.60	26,190	48,938
Jun	16.12	+0.01	16.32	15.98	15,640	49,645
Jul	16.42	-	16.60	16.32	5,833	27,037
Aug	16.70	+0.01	16.81	16.60	1,606	16,935
Sep	16.97	-0.05	17.03	16.97	1,920	19,262
Total					n/a	n/a

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	13.86	-0.03	14.10	13.73	20,121	55,267
May	14.32	+0.02	14.54	14.17	7,029	25,478
Jun	14.68	-0.07	14.92	14.66	4,025	25,102
Jul	15.00	-0.03	15.29	15.00	2,157	15,420
Aug	15.37	-	15.64	15.35	459	7,441
Sep	15.60	-	15.74	15.52	746	8,459
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Mar	42.90	+0.37	43.25	42.40	13,304	23,026
Apr	43.40	+0.30	43.65	42.90	11,138	42,105
May	44.10	+0.30	44.15	43.70	3,331	18,272
Jun	44.90	+0.35	45.05	44.65	3,058	16,431
Jul	45.60	+0.35	46.00	45.55	2,679	12,780
Aug	46.85	+0.50	47.05	46.70	1,744	9,323
Total					n/a	n/a

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	132.25	-1.25	133.50	130.50	7,600	26,719
Apr	134.25	-1.75	135.75	133.50	5,608	16,434
May	137.00	-2.00	138.00	136.50	2,361	11,563
Jun	140.00	-2.00	141.00	139.50	2,068	14,379
Jul	143.00	-1.75	144.00	142.25	669	6,024
Aug	145.00	-	147.00	145.00	344	5,537
Total					41,031	121,433

■ NATURAL GAS IPE (1,000 therms; pence per therm)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	9.450	-0.010	9.470	9.450	755	1,460
Apr	9.370	-0.020	9.450	9.370	375	2,250
Total					1,140	13,670

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

	Latest price	Day's change	High	Low	Vol	Open int
Mar	2.220	-0.041	2.230	2.175	29,591	25,873
Apr	2.275	+0.048	2.290	2.225	7,563	34,846
May	2.295	+0.038	2.300	2.250	1,413	15,625
Jun	2.300	+0.025	2.305	2.270	1,333	14,290
Jul	2.315	+0.023	2.320	2.280	657	11,385
Aug	2.330	+0.023	2.335	2.299	1,273	12,852
Total					n/a	n/a

■ UNLEADED GASOLINE
NYMEX (42,000 US galls; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Mar	47.90	-0.41	48.80	47.40	14,620	19,043
Apr	51.25	-0.27	51.75	50.90	12,635	38,068
May	51.65	-0.17	52.20	51.60	3,939	18,243
Jun	52.35	-0.07	52.60	52.05	2,862	11,269
Jul	52.60	+0.03	52.85	52.35	1,556	11,028
Aug	52.40	-0.09	52.50	52.30	887	5,506
Total					n/a	n/a

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	79.20	-0.05	79.00	79.00	50	430
May	81.55	-0.15	81.75	81.40	502	4,090
Jul	83.60	-0.10	83.80	83.50	301	800
Sep	80.45	-0.30	-	-	110	110
Nov	82.45	-0.30	82.75	82.25	25	1,728
Total					923	7,283

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	320.50	-5.50	327.00	318.50	10,875	24,788
May	329.75	-6.00	336.75	328.50	7,099	33,383
Jul	339.00	-5.50	345.50	337.00	4,777	30,896
Sep	347.25	-4.25	352.25	345.00	84	3,553
Dec	357.00	-5.50	362.50	356.00	385	6,936
Jul	354.00	-4.00	-	-	3	37
Total					23,193	99,998

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	263.25	-2.50	266.00	263.00	30,000	74,418
May	271.00	-2.75	274.00	270.75	21,996	95,016
Jul	276.25	-3.25	280.00	276.00	11,826	90,906
Sep	278.00	-2.50	281.75	278.00	977	14,350
Dec	279.00	-2.00	282.25	278.50	5,362	60,758
Mar	284.50	-2.50	287.75	284.25	75	4,238
Total					70,282	341,381

■ BARLEY LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	74.00	-0.25	74.00	73.75	95	207
May	76.25	-0.10	76.00	76.00	-	275
Sep	77.50	-0.25	-	-	-	7
Nov	79.50	-0.25	79.50	79.50	-	375
Jan	81.50	-0.25	-	-	-	72
Total					182	936

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	653.25	-9.25	664.20	651.00	33,474	31,230
May	654.50	-10.50	667.00	653.00	20,999	51,811
Jul	659.50	-10.75	672.00	653.50	8,835	36,936
Aug	652.75	-11.75	670.50	653.50	334	5,954
Sep	548.00	-9.00	652.30	645.00	57	1,017
Nov	544.75	-9.50	554.75	544.50	2,652	16,733
Total					66,580	144,580

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	26.44	-1.47	26.75	26.25	6,436	22,409
May	26.81	-0.49	27.29	26.56	11,295	58,309
Jul	27.15	-1.45	27.44	26.95	4,352	32,260
Aug	27.05	-0.45	27.30	26.85	127	3,909
Sep	26.90	-1.29	27.15	26.75	326	2,725
Oct	26.88	-1.25	26.75	26.40	292	2,790
Total					23,949	139,938

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	177.3	-1.9	131.5	177.0	8,825	24,098
May	177.2	-2.0	180.5	176.5	10,514	47,773
Jul	179.5	-2.0	182.7	175.9	4,332	29,887
Aug	181.2	-2.1	184.0	181.0	1,062	9,650
Sep	183.0	-2.1	186.5	183.0	343	7,377
Oct	184.3	-1.6	188.3	184.0	218	2,350
Total					26,863	130,260

■ POTATOES LIFFE (20 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	72.0	-	-	-	-	-
Apr	71.5	-2.5	71.0	70.0	17	993
May	84.0	-1.0	84.0	83.0	12	190
Jun	85.5	-	-	-	-	-
Nov	66.0	-	-	-	-	-
Total					30	1,310

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett	Day's change	High	Low	Vol	Open int
Feb	1035	-4	1042	1033	6	196
[illegible]						

Close Prev
BFI [illegible]

PULP AND PAPER

■ PULPEX CASH (24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	[illegible]					
Jun	[illegible]					
Total						

FUTURES DATA
All futures data supplied by CMS.

Minor metals [illegible]

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	1011	+10	1014	1003	6,843	31,467
May	1032	+8	1036	1027	5,089	37,557
Jul	1052	+7	1056	1048	257	14,502
Sep	1074	+8	1078	1073	304	25,536
Dec	1099	+9	1102	1097	47	31,118
Mar	1128	+9	1131	1127	278	27,721
Total					12,888	186,651

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	1516	+10	1540	1513	66	248
May	1556	+3	1575	1552	4,386	37,122
Jul	1586	+2	1596	1585	181	8,616
Sep	1615	+3	1630	1620	29	5,740
Dec	1646	+3	1666	1650	455	12,636
Mar	1678	+3	1693	1686	107	8,708
Total					5,177	78,841

■ COCOA (ICCO) (SDR's/tonne)

Feb 23	Price	Prev. day
Daily	1218.27	1215.45

■ COFFEE LIFFE (5 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	1765	-	1792	1764	4,693	13,041
May	1760	+7	1790	1755	7,199	20,894
Jul	1740	+5	1769	1737	467	3,351
Sep	1723	+4	1752	1728	147	1,979
Nov	1699	+4	1688	1688	10	399
Jan	1684	+4	-	-	-	38
Total					12,538	39,702

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	173.55	-5.70	181.00	170.00	483	2,109
May	170.20	-6.35	178.25	164.50	4,929	17,083
Jul	162.20	-6.45	169.00	158.50	648	6,033
Sep	152.50	-5.85	158.50	151.75	254	2,598
Dec	144.50	-5.00	149.50	143.50	163	2,295
Mar	138.75	-4.75	140.50	139.50	15	389
Total					6,482	30,548

■ COFFEE (ICO) (US cents/pound)

Feb 23		Prev. day
Comp. daily	134.03	132.37
15 day average	131.09	131.01

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	264.8	-11.4	269.0	250.0	3,466	17,292
Aug	271.3	-10.3	275.3	255.0	1,088	7,496
Oct	273.4	-9.0	277.0	259.5	561	6,765
Dec	276.4	-6.6	280.5	264.0	60	745
Mar	284.9	-7.2	283.1	272.0	118	312
May	290.6	-2.3	287.1	279.0	53	379
Total					5,398	33,040

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	9.73	-0.09	9.75	9.15	14,853	31,786
May	9.61	+0.01	9.62	9.07	25,877	83,496
Jul	9.52	+0.06	9.54	9.04	12,542	36,175
Oct	9.72	+0.05	9.72	9.22	5,345	41,345
Mar	9.90	-0.01	9.90	9.55	2,212	15,141
May	9.93	-0.02	9.92	9.70	213	2,090
Total					61,392	214,768

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	63.10	-1.04	64.09	63.05	2,048	818
May	65.53	-0.57	66.00	65.40	3,778	36,467
Jul	66.89	-0.58	67.30	66.85	1,510	21,706
Oct	69.35	-0.60	69.70	69.20	40	2,633
Dec	70.93	-0.47	71.30	70.90	982	22,608
Mar	72.03	-0.50	72.30	71.95	82	1,342
Total					8,499	87,537

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
[illegible]						

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Feb 24	Feb 23	month ago	year ago
1710.2	1715.7	1752.7	1976.9

■ CRB Futures (Base: 1967 = 100)

Feb 23	Feb 20	month ago	year ago
226.10	228.44	[illegible]	[illegible]

■ GSCI Spot (Base: 1970 = 100)

Feb 23	Feb 20	month ago	year ago
164.24	168.48	168.64	192.56

LME WAREHOUSE STOCKS (tonnes)

Aluminium	-825	to	569,250
Aluminium alloy	-180	to	42,620
Copper	+1,350	to	377,750
Lead	-125	to	107,550
Nickel	-30	to	56,250
Zinc	-750	to	477,750
Tin	-160	to	9,965

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	64.475	+0.600	64.650	62.875	18,225	51,456
Jun	65.500	+0.450	65.700	65.200	5,903	29,310
Aug	67.075	+0.150	68.050	67.100	2,133	10,622
Oct	69.400	+0.400	69.500	69.400	1,423	5,953
Dec	70.450	+0.175	70.525	69.900	190	1,611
Feb	71.700	+0.200	71.700	71.350	126	347
Total					28,028	99,817

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	49.200	-1.000	50.150	48.200	4,469	18,402
Jun	57.800	-1.050	58.750	56.850	3,887	10,922
Jul	57.950	-0.850	58.700	56.900	629	3,693
Aug	56.850	-1.050	57.500	55.900	203	1,697
Oct	55.325	-0.350	55.600	54.300	629	2,308
Total					9,799	37,894

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	41.100	-0.900	42.050	40.000	26	10
Mar	41.400	+0.725	42.150	39.400	1,367	2,966
May	42.350	+0.675	43.200	40.500	1,348	3,690
Jul	42.200	+1.150	42.800	40.050	692	1,462
Aug	40.150	+0.525	41.500	39.300	142	527
Total					3,607	8,666

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Mar	Jun	Mar	Jun
1300	145	161	3	9
1400	59	87	16	33
1500	13	39	68	83
■ COPPER (Grade A) LME	**Mar**	**Jun**	**Mar**	**Jun**
1500	129	163	7	21
1600	57	96	33	52
1700	17	51	93	105
■ COFFEE LIFFE	**Mar**	**May**	**Mar**	**May**
1650	112	134	1	24
1700	62	98	1	38
1750	17	67	5	57
■ COCOA LIFFE	**Mar**	**May**	**Mar**	**May**
975	31	69	1	12
1000	8	51	2	19
1025	1	38	19	31
■ BRENT CRUDE IPE	**Mar**	**Apr**	**Mar**	**Apr**
1450	18	-	-	-
1500	12	-	-	-
1550	-	-	-	-

LONDON SPOT MARKETS

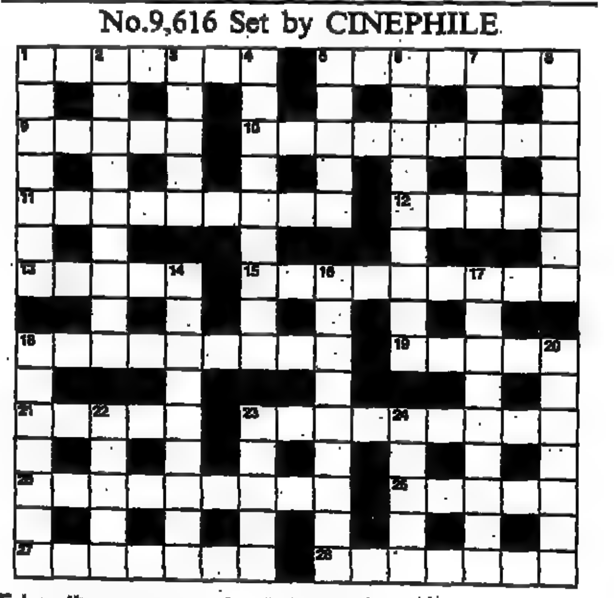
■ CRUDE OIL FOB (per barrel)		+or-
Dubai	$11.53-1.60x	-0.225
Brent Blend (dated)	$13.14-3.16	-0.315
Brent Blend (Apr)	$13.89-3.91	-0.295
W.T.I.	$15.33-5.34x	-0.455
■ OIL PRODUCTS NWE prompt delivery CIF (tonne)		
Premium Gasoline	$163-165	-3
Gas Oil	$132-133	-0.5
Heavy Fuel Oil	$64-67	
Naphtha	$149-151	-1
Jet fuel	$148-149	-1.5
Diesel	$136-137	-1
■ NATURAL GAS (Pence/therm)		
Bacton (Mar)	9.45-9.50	
Petroleum Argus. Tel. London (0171) 359 8792		
■ OTHER		
Gold (per troy oz)	$291.85	-1.50
Silver (per troy oz)	643.50c	-7.00
Platinum (per troy oz.)	$374.00	-10.00
Palladium (per troy oz.)	$236.00	+2.00
Copper	82.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	20.59r	
Tin (New York)	249.5	
Cattle (live weight)	88.61p	-1.57*
Sheep (live weight)	77.69p	-2.86*
Pigs (live weight)	70.00p	-0.70*
Lon. day sugar (raw)	$238.50	-12.10
Lon. day sugar (wte)	$265.90	-6.60
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Mar)	51.50p	
Rubber (Apr)	52.50p	
Rubber (KL RSS No1)	305.00m	-1.00
Coconut Oil (Phil)	565.0y	-10.0
Palm Oil (Malay)	640.0	-7.5
Copra (Phil)	$372.5y	-7.5
Soyabeans (US)	155.0	
Cotton Outlook 'A' index	67.65c	
Wooltops (64s Super)	392p	

$ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Apr. † London Physical. § CIF Rotterdam. ‡ Bullion market close. * Change on week. [Based on 4,040 head of pigs sold]

JOTTER PAD

CROSSWORD

No.9,616 Set by CINEPHILE



F has the same meaning in all cases, as do B and N, which are also F

ACROSS

1 Gold (a carat), silver, and sodium, from artist of the Trecento (7)
5 Black B on black walk (7)
9 F in the eye (5)
10 F came across journalist and went straight down (9)
11 F is the note to restore to the post (9)
12 One that draws Czech money (5)
13 B, the last to give one a break? (5)
15 One bun daily, cooked without a sound (9)
18 Loans on property create storm about little F (9)
19 In law it signifies a licence to bar females (5)
21 See started poetically with B (5)
23 Setter's stratum on warship (9)
25 Complete ass, almost, about the fate of groups of craft (9)
26 Singer with sauce to go with F (5)
27 V-shaped American car let off at pole (7)
28 Puss not surprisingly on the heater (7)

DOWN

1 Love has scope for F (7)
2 Ganymede gives prize to presenter of bill (9)
3 Pick up string and list (5)
4 Looking for F in a timer's noise? (9)
5 Beast to live outside the groove (5)
6 Most of N's hell for the Moors with mad haloes (9)
7 N sounds like an insect (5)
8 Getting on, as they say, in B style? (7)
14 Orwell's destination, new that needs airing, strangely (5,4)
16 Boy is found, in a degree, with firemen, as it were (9)
17 Sound start of year followed by fiasco at undesirable dive (9)
18 Man's bit of fiction is harmful (7)
20 Black or other F managed in brief (7)
22 B for bird that's booed (5)
23 F that could be .... (5)
24 .... the answer to F (5)

Solution 9,615

FT MANAGED FUNDS SERVICE

Offshore Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (FSA RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (FSA RECOGNISED)

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

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BAII Asset Management Ltd
10 Piccadilly, London W1V 0EE 0171 734 3700

	Init Charge	Selling Price	Buying Price	+ or -	Yield Grs
Investmarket BAII Feb 13 F		$673.22		-6.91	-

Bank Von Ernst & Cie AG
Marktgasse 63/65, 3001 Berne, Switzerland 0041 31 3266111

	Init Charge	Selling Price	Buying Price	+ or -	Yield Grs
UK Equity		£20.36		—	-
UK Smaller Co's Eqty		£28.17		—	-
Nth American Equity		$18.76		—	-
US Smaller Co's Eqty		$28.57		—	-
Pacific Basin Equity		$10.07		—	-
Japanese Equity		Y470		—	-
European Equity		DM29.5		—	-
Swiss Equity		SFr19.16		—	-
VB Sterling Fixed Int		£18.52		—	-
VB Sterling Fixed Int Div		£10.54		—	-
European Fixed Int		DM14.20		—	-
European Fixed Int Div		DM9.59		—	-
DM Bond Cap		DM11.54		—	-
DM Short Term Cap H	1½	DM10.25		—	-
Global Equity		$16.64		—	-
Global Bond		$13.87		—	-
Global Bond Div		$9.42		—	-
Global Managed		DM14.21		—	-

[illegible]

Frontrunner I (u)
672 rue de Neudorf, Luxembourg

	Init Charge	Selling Price	Buying Price	+ or -	Yield Grs
European Value Fd		Ecu177.39		—	-
Global Bond Fd		DM185.22		—	-
Global Bond Fd		DM182.74		—	-
Sterling Bond Fd		£210.17		—	-
Danish Bond Fd		DKr194.19		—	-
Swedish Bond Fd	3	SKr140.80		—	-
German Bond Fd		DM111.05		—	-
Dollar Bond Fd	3	$105.07		—	-
Scandinavian Value Fd		Ecu279.32		—	-
Far East Value Fd		$81.57		—	-
North American Value Fd	5	$118.71		—	-
US Dollar Reserve	9	$104.25		—	-
Norwegian Equity Fd	6	NKr98.45		—	-
European Equity Fd	5	Ecu116.72		—	-

GT Global

	Init Charge	Selling Price	Buying Price	+ or -	Yield Grs
GT Europe A		$80.17	98.07	-0.15	0.12
GT Europe A		£58.61	59.59	-0.09	0.12
GT Europe B		$93.67		-0.15	0.14
GT Europe B		£58.82		-0.09	0.14

[illegible]

LUXEMBOURG (REGULATED)(**)

[illegible]

OFFSHORE INSURANCES

[illegible]

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FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

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OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
Allied Domecq	[illegible]	540	-7	599	407½	1,871	4.5	14.0
Bulmer (HP)	[illegible]	495	-4	628	342½	–	4.6	12.8
Burn St Dist	[illegible]	29	–	71½	29	38	14.7	10.1
Diageo	[illegible]	614xd	+11½	650	[illegible]	[illegible]	2.9	18.7
Glenmorangie A	[illegible]	825	–	1000	825	–	2.0	19.7
B	[illegible]	912½	[illegible]	1140	912½	–	0.9	43.7
Highland	[illegible]	272½	[illegible]	373½	272½	130	4.1	12.6
5 ¼pc Cnv Bds		[illegible]	-1	[illegible]	85½	–	5.9	–
Kirin Y	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	–	7.1	–
Matthew Clark	[illegible]	[illegible]	[illegible]	335	157	182	12.9	6.2
Merrydown	[illegible]	58	[illegible]	[illegible]	45	–	7.8	–
Seagram C$		[illegible]	[illegible]	[illegible]	[illegible]	–	1.2	–

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING MATS. & MERCHANTS

CHEMICALS

CONSTRUCTION

CONSTRUCTION - Continued

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Continued

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Continued

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Continued

HOUSEHOLD GOODS & TEXT

HOUSEHOLD GOODS & TEXT - Continued

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Continued

INV TRUSTS SPLIT CAPITAL

هكذا من الاصل

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Continued

[illegible]

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Continued

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

PROPERTY - Continued

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Continued

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Continued

[illegible]

TELECOMMUNICATIONS

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

TRANSPORT - Continued

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Continued

[illegible]

The Alternative Investment Market, designed primarily for small companies, is regulated by the London Stock Exchange but has less demanding rules than the SE Official List.

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
Anglo Am Ind R		[illegible]		[illegible]	[illegible]	-	[illegible]	12.8
Barlow	♦	[illegible]	[illegible]	[illegible]	[illegible]	-	[illegible]	-
Gold Flds Prop R		[illegible]		[illegible]	[illegible]	-	[illegible]	[illegible]
SA Brews	†	[illegible]	[illegible]	[illegible]	[illegible]	-	[illegible]	-
Standard Bank		[illegible]	[illegible]	[illegible]	[illegible]	-	[illegible]	-
Tiger Oats		[illegible]	[illegible]	[illegible]	[illegible]	-	[illegible]	[illegible]
Tongaat-Hulett		747½	-1½	[illegible]	721½	-	[illegible]	[illegible]

TRADED INDEX SECURITIES

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
FTSE 100 TRADIS		[illegible]	-	[illegible]	[illegible]	-	-	-

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 index constituents and reserves marked † in the Trading Volume table on the LSE page, last trade prices at or prior to 4.30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for those particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on UMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ⊕ Figures or report awaited
- ♥ Rule 2.1(a)(v) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield, p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1998-99.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1997
K Yield based on prospectus or other official estimates for 1998
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1997-98.
N Dividend is paid in whole or part as a FID (Foreign Income Dividend)
R Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xd ex capital distribution.

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LONDON STOCK EXCHANGE

Market rallies after mega-merger setback

MARKET REPORT

By Steve Thompson,
UK Stock Market Editor

News that merger talks between Glaxo Wellcome and SmithKline Beecham had been called off produced an instant three-figure slide in the FTSE 100 yesterday.

But by the end of the session the market was in a much happier mood despite massive falls in the two leading pharmaceutical stocks which accounted for around 75 FTSE 100 points.

"Strip out those two stocks and the market is comfortably higher on the day. It really is proving very difficult to keep this market down," noted one salesman.

And the market had to cope with more bad corporate news from NatWest, whose preliminary figures proved a big disappointment, as well as a none-too-surprising profit warning from Safeway, one of the UK's big four food retailers.

"This market doesn't feel as if it's under great pressure. It probably needs a breather after its big upside run but it feels well underpinned. The institutions are still stuffed with cash and there is no great downside pressure," said a senior marketmaker. He said the market might come back but there were few signs that the big sellers were lining up.

Some equity strategists adopted a rather bearish view of recent developments. "One can't help feeling that some of the mega-mergers are happening from weakness rather than strength. The actual and rumoured takeovers in banking, retailing and food retailing could be seen to be shoring up positions of sectoral weakness," said Richard Jeffrey, group economist at Charterhouse Tilney.

When the dust settled, the FTSE 100 was 51.8 lower at 5,651.0. At its worst, only minutes after the session kicked off, Footsie posted a 117.9 fall at 5,584.9.

The other FTSE indices also gave ground, ending the sequence of seven straight winning performances by the 250 and the five gains in a row by the SmallCap. The former finished the day 2.9 off at 5,041.9, while the FTSE SmallCap settled 3.2 lower at 2,442.3.

With London preoccupied with the Glaxo-Wellcome story, the influence of overseas markets, so important in recent months, faded into the background.

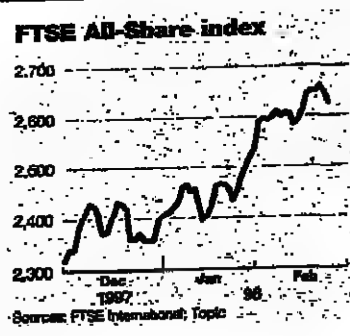
But dealers insisted that Wall Street remained supportive, with the Dow Jones Industrial Average ending only marginally easier on Monday and fighting back from an initial drop yesterday to be only a few points lower not long after London closed.

The testimony delivered by Alan Greenspan, chairman of the US Federal Reserve, to a Congress sub-committee yesterday, was being closely scrutinised by analysts. Earlier the Dow had fallen back after a raft of economic data, including slightly higher-than-expected inflation numbers for January.

The bid bandwagon, far from ending with the drugs news, rolled further down the road as United Carriers was the latest smaller company to receive a bid approach. General Cable also said it was involved in takeover discussions.

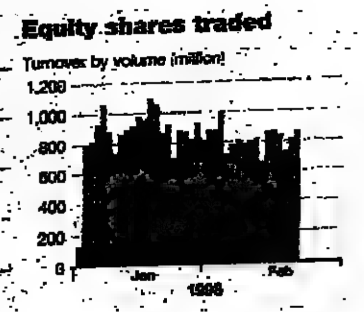
Turnover in equities at 6pm was 876.3m shares.

FTSE All-Share index



Source: FTSE International; Topic

Equity shares traded



Indices and ratios

FTSE 100	5651.0	–51.8	FT 30	3478.9	–11.2
FTSE 250	5041.9	–2.9	FTSE Non-Fins p/e	20.89	21.16
FTSE 350	2695.6	–20.5	FTSE 100 Fut Mar	5646.0	–54.0
FTSE All-Share	2626.01	–18.94	10 yr Gilt yield	6.11	6.07
FTSE All-Share yield	2.97	2.94	Long gilt/equity yld ratio	2.06	2.07

Best performing sectors

1. Tobacco .... +2.4
2. Household Goods .... +2.2
3. Insurance .... +1.8
4. Gas Distribution .... +1.8
5. Food Producers .... +1.4

Worst performing sectors

1. Pharmaceuticals .... –9.9
2. Consumer Goods .... –5.0
3. Water .... –2.2
4. Extractive Inds .... –1.4
5. Health Care .... –1.1

Tears shed for failed drugs deal

By Peter John and Martin Brice

Like many relationships these days, the marriage made in "pharma heaven" failed to make it to the altar and there were stock market tears for Glaxo Wellcome and SmithKline Beecham.

Glaxo fell 247 to £16.57 on turnover of 32m shares and SmithKline 83 to 724p with 47m dealt, the two companies taking more than 60 points off the FTSE 100 index between them. The volume of the two stocks represented almost 10 per cent of the day's overall trading activity.

However, the falls were significantly smaller than the rises when it was first announced at the beginning of February that the two groups intended to merge.

The general market view was that, with the merger banns already published, some form of wedding would take place in the sector somewhere.

The principal question was about which company most needed to consolidate. Many analysts argued that with two failed relationships behind it, SmithKline would be the most desperate. However, one analyst suggested that with some disappointing full-year results just announced, Glaxo's promises of double-digit earnings growth were looking shaky unless it had a deal behind it.

The break-up also pointed to much of the bid premium coming out of the market. James Culverwell of Merrill Lynch said: "At least one of these companies will still be looking to do a deal. But this is a reminder that while deals look great on paper they have to work in practice. There is more to it than just an earnings model."

Peter Cartwright of Williams de Broe highlighted the probable shareholder dissatisfaction with management's failure to agree. "Investors were persuaded of the advantages of the deal and then lost out because of what looks like squabbling between the boys."

Builders firm

Housebuilding stocks turned in a splendid performance as George Wimpey brought further news of strength in the market. Its shares rose 5 per cent, or 5½ to 117p, one of the best performances in the FTSE 250, after the company doubled pre-tax profits on turnover that fell slightly.

The good figures prompted a raft of upgrades to forecasts. Merrill Lynch, which issued a bullish note on the sector in recent weeks, shifted its 1998 forecast from £76m to £80.5m and upgraded its stance from "neutral" to "accumulate".

The new forecast leaves the shares standing at about 8 times earnings, suggesting that the re-rating of the sector has yet to take place.

The positive sentiment on Wimpey spread to other housebuilding stocks, which dominated the list of risers in the FTSE 250.

Bryant Group, which unveiled strong results recently, gained 4 to 141p while Redrow was up 5½ at 177p and Beazer 5½ to 203p.

Mark Hake at Merrill said: "This continues the trend that started with Bryant, and we anticipate further strong results could lead to a re-rating of the house builders."

The next bellwether for the sector will be results on March 9 from Persimmon, seen as one of the better-quality stocks in the sector, and set to unveil a 42 per cent advance. Its shares rose a penny to 222½p.

The outlook for oil stocks took a turn for the worse after two brokers slashed forecasts for the underlying oil price and also took the knife to their profit forecast and outlook for BP and Shell Transport.

Brent Crude traded below $14 a barrel. HSBC Securities cut its average oil outlook from $17 to $16 a barrel while SG Securities adopted an even more cautious view, reducing to $15 a barrel from $17 previously.

Following his shift, Steve Turner of HSBC cut his earnings forecast on BP, the UK major most exposed to oil prices, by 6 per cent and his prediction on Shell by 4 per cent. He went from 49.3p to 46.3p earnings per share on BP and from 21.9 to 21p eps on Shell.

Meanwhile, John Toalster of SG put out a straight "sell" recommendation on BP and went from "outperform" to "hold" on Shell.

He said: "The two latest developments in Iraq have undermined confidence in the oil sector." BP fell 4¼ to 800½p but Shell closed a penny higher at 409p.

The long-awaited profit warning from Safeway took its toll and the shares fell 9¼ to 355½p as the company talked of a £375m full-year result, down from a figure of about £417m. Volume was a heavy 10m.

There was talk that yesterday's share price decline was restrained by prospects of a possible merger with Asda, although there are said to be concerns that Asda's trading in recent weeks has been less than stellar. Asda was unchanged at 204p. However, any merger would have to overcome a significant regulatory hurdle.

Wilshaw Group, the magnet maker, paid 37p each for 450,000 of its shares, which rose 1¼ to 38p.

Solid results from information technology companies prompted the shares to surge, with Capita Group, the consultancy company, leading the FTSE 250 with its rise of 35 to 389p after unveiling a 50 per cent rise in profits.

Its advance of almost 10 per cent was followed closely by Admiral which rose 67½ to 787½p after revealing a 56 per cent profits growth.

However, Sema was punished for a mere 28 per cent profits rise, seeing its shares off 7½ to £18.85. However, they had a good run in the days ahead of the results.

Reckitt & Colman, the tightly-traded household products group, spiked up 42 to £11.06 with dealers suggesting "something going on".

However, analysts were surprised by the activity and some pointed out that figures on March 12 were likely to be at the lower end of the market range of forecasts because of Reckitt's exposure to Asia.

Bottom-of-the-range figures and dividend growth well below its sector peers hit NatWest and the shares slid 21 to £11.04.

John Tyce of SG Securities commented: "With NatWest, the story is not so much jam tomorrow as jam next century."

Any nervousness over future mergers and acquisitions failed to hit insurance stocks yesterday. General Accident leapt 83 to £14.55 as dealers chatted about the possibility of a tie-up with Commercial Union.

With three insurers – CU, Guardian Royal Exchange and Prudential – reporting today, analysts were sceptical of a bid coming out as well.

FT 30 INDEX

	Feb 24	Feb 23	Feb 20	Feb 19	Feb 18	Yr ago	*High	*Low
FT 30	3478.9	3490.1	3501.8	3492.5	3495.7	2881.1	3498.1	2868.8
Ord. div. yield	3.12	3.08	3.06	3.07	3.07	3.92	4.22	3.06
P/E ratio net	22.76	23.02	23.15	23.07	23.10	17.72	23.16	15.80
P/E ratio nil	22.58	22.82	22.95	22.87	22.90	17.60	22.96	15.71

FT 30 since compilation: high 3498.1 17/02/98, low 49.4 26/06/40. Base Date: 1/7/35

FT 30 hourly changes

Open	9	10	11	12	13	14	15	16	High	Low
3490.1	3466.8	3476.5	3476.1	3476.7	3483.3	3485.8	3484.3	3481.0	3490.1	3447.6

	Feb 24	Feb 23	Feb 20	Feb 19	Feb 18	Yr ago
SEAQ bargains	71,905	68,373	65,776	66,010	66,670	49,310
Equity turnover (£m)†	–	NA	1673.3	1624.9	1911.8	2247.6
Equity bargains†	–	NA	51,278	52,385	54,331	44,211
Shares traded (ml)†	–	NA	553.1	553.0	558.0	734.7

†Excluding intra-market and overseas turnover but including Crest turnover.
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London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	586	Total Highs	149	Total contracts	19,670
Total Falls	1,023	Total Lows	61	Calls	8,536
Same	1,406			Puts	11,134

Feb 24 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	5610.0	5646.0	-54.0	5669.0	5600.0	9346	60410
Jun	5680.0	5711.0	-55.0	5714.0	5660.0	396	7866
Sep	5760.0	5779.0	-56.0	5773.0	5760.0	400	1240

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	5060.0	5060.0	-5.0	5080.0	5060.0	2013	6028

FTSE 100 INDEX OPTION (LIFFE) (*5648) £10 per full index point

	5450 C	5450 P	5500 C	5500 P	5550 C	5550 P	5600 C	5600 P	5650 C	5650 P	5700 C	5700 P	5750 C	5750 P	5800 C	5800 P
Mar	258	51	212	63	178	76	142	95	113	114	87	139	64	167	47	199
Apr	320	103	282	115	250	134	219	154	189	174	159	196	136	224	114	252
May	363½	134½	329½	150½	289½	170½	269½	189½	238½	208½	208½	229½	185½	255½	163½	282½
Jun	429	178	398½	195½	368½	213½	337	232	303½	250	271½	269½	245	294	221	330½
Dec†			642	307½			581½	346½			621	387½			471	436

Calls 1,254 Puts 795

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

	5475 C	5475 P	5525 C	5525 P	5575 C	5575 P	5625 C	5625 P	5675 C	5675 P	5725 C	5725 P	5775 C	5775 P	5825 C	5825 P
Mar	255	55	187	57	154	83	124	103	87	128	75	153	56	184	41	219
Apr	298	109	263	123	239	140	200	159	171	180	146	204	123	231	103	260
May	338	133½	305	150	274	168	245½	188	218½	210½	193½	235	169	259½	146½	286
Jun			374	182½			311½	227½			254½	268			205	316½
Sept†			498½	254½			436½	288½			379½	327½			325½	369½

Calls 2,108 Puts 4,142 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1997/98 High	1997/98 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
–	F.P.	42.2	100	91½	Athlone Extrusions	91½		–	–	–	15.0
–	F.P.	865.8	105	96	Bass B	97½		–	–	–	–
–	F.P.	2,844	521	500	Diageo B	517	-1	–	–	–	–
§100	F.P.	33.1	105½	93	Eurosov Energy	94½	+½	–	–	–	–
–	F.P.	–	9½	8	Eurotrl 01/03 Wts	9½		–	–	–	–
§165	F.P.	351.9	202½	189	Monsoon	198		L4.0	2.2	2.5	22.8
–	F.P.	6.92	62½	57½	Richards Grp	60½		–	–	–	–
§	F.P.	–	8	4½	Sanctuary Wts	4½		–	–	–	–

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1997/98 High	1997/98 Low	Stock	Closing price p.	+or-
190	Nil	4/3	14½pm	9½pm	Minerva	14½pm	+2½
18.5	Nil	27/2	2pm	½pm	Pentex Energy	½pm	-¼

pm premium.

FTSE GOLD MINES INDEX

	Feb 23	% chg on day	Feb 20	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (32)	1012.57	-2.4	1037.59	1984.43	2.43	–	1907.49	891.33
Regional Indices								
Africa (14)	1027.46	-5.0	1081.11	2247.22	5.38	19.08	2333.59	921.78
Australasia (7)	1293.16	-0.7	1302.81	2107.55	2.67	17.27	2124.22	983.63
North America (11)	980.52	-1.7	997.94	1727.55	1.25	38.88	1780.68	884.86

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FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Feb 24	Day's chge%	Feb 23	Feb 20	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	5651.0	-0.9	5702.8	5751.6	4344.7	2.89	2.43	2.07	20.86	12.42	2445.15
FTSE 250	5041.9	-0.1	5044.8	5029.7	4665.0	3.30	2.74	1.86	19.30	8.08	2138.86
FTSE 250 ex IT	5069.0	—	5068.8	5054.7	4704.1	3.41	2.83	2.01	18.20	8.98	2157.91
FTSE 350	2695.6	-0.8	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 350 ex IT	2700.8	-0.8	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 350 Higher Yield	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 350 Lower Yield	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE SmallCap	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE SmallCap ex IT	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE All-Share	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE All-Share ex IT	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FTSE Actuaries Industry Sectors

	Feb 24	Day's chge%	Feb 23	Feb 20	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 RESOURCES to 79 Property (sector rows)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
80 INVESTMENT TRUSTS(119)	3647.24	-0.5	3665.64	3647.80	3358.01	2.13	1.71	1.18	49.67	7.15	1320.14
89 FTSE All-Share(888)	2626.01	-0.7	2644.95	2660.46	2121.62	[illegible]	2.48	2.02	20.89	5.50	2356.38
105 FTSE All-Share ex IT(748)	2633.61	-0.7	2652.75	2669.16	–	2.99	2.50	2.04	20.54	5.53	1215.67
Information Technology	1244.39	+0.3	1241.08	1241.06	–	0.66	[illegible]	2.56	73.94	1.10	1245.50
FTSE Fledgling	1336.20	....	1336.63	1331.84	1338.47	3.31	2.66	1.36	27.81	2.83	1456.94
FTSE Fledgling ex IT	1358.57	....	1358.33	1352.67	1360.46	3.70	2.98	1.39	[illegible]	2.86	1498.03
FTSE AIM	1004.0	-0.1	1005.3	1005.2	–	1.13	0.89	[illegible]	80.00†	0.96	925.06

Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	–	5623.2	5642.5	5641.9	5635.5	5640.1	5642.3	5640.0	5648.9	5653.7	5584.9
FTSE 250	–	5036.3	5041.3	5039.8	5042.2	5042.8	5043.2	5042.7	5042.4	5044.4	5035.8
FTSE 350	–	2684.2	2692.2	2691.6	2689.6	2691.4	2692.3	2691.4	2694.8	2696.6	2670.1
FTSE SmallCap	2443.04	2442.35	2443.25	2443.39	2443.46	2442.72	2442.80	2442.45	2442.66	2443.54	2442.14
FTSE All-Share	–	2615.62	2623.00	2622.45	2620.59	2622.22	2623.07	2622.18	2625.35	2627.00	2602.78

Time of FTSE 100 Day's high: 10:12 AM Day's low: 8:36 AM. FTSE 100 1997 High: 5751.6 (20/02/98) Low: 4056.6 (10/01/97)
Time of FTSE All-Share Day's high: 10:12 AM Day's low: 8:36 AM. FTSE All-Share 1997 High: 2660.50 (20/02/98) Low: 1989.78 (02/01/97)

Further information is available on http://www.ftse.com

† Sector P/E ratios greater than 80 and net covers greater than 30 are not shown. ‡ Values are negative. Annual review changes please see FTSE Intl webside ftse.com For Quarterly Review Changes see website www.ftse.com. Deletions: First Call, Kode Int. Second Cons (FTSE Fledgling) Name Change: Reuters Hldgs to Reuters Grp

FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks yesterday.

	Vol. 000s	Closing price	Day's change
3i†	1,200	526	+6
AMVESCAP†	881	580	+9
ASDA Group†	6,100	204	
Abbey National†	2,600	1267	+20
Airtours	1,400	447½	+11
[illegible]	[illegible]	[illegible]	[illegible]

Based on trading volume for a selection of major securities yesterday until 4.30pm. † Indicates a FTSE 100 index constituent or reserve. All trades are rounded. Source: Exel, part of FT Information.

هكذا من الأصل

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Feb 24 / Sch)

BELGIUM/LUXEMBOURG (Feb 24 / Frs.)

CZECH REP (Feb 24 / Korona)

DENMARK (Feb 24 / Kr)

FINLAND (Feb 24 / Mkka)

FRANCE (Feb 24 / Frs.)

GERMANY (Feb 24 / Dm.)

GREECE (Feb 24 / Drachmae)

ITALY (Feb 24 / Lire)

NETHERLANDS (Feb 24 / Fls.)

NORWAY (Feb 24 / Kroner)

POLAND (Feb 24 / Zloty)

PORTUGAL (Feb 23 / Escudo)

SPAIN (Feb 24 / Pts.)

SWEDEN (Feb 24 / Kronor)

SWITZERLAND (Feb 24 / Frs.)

TURKEY (Feb 24 / Tk Lira)

PACIFIC

JAPAN (Feb 24 / Yen)

AUSTRALIA (Feb 24 / Aus$)

HONG KONG (Feb 24 / H.K.$)

INDONESIA (Feb 24 / Rupiah)

MALAYSIA (Feb 24 / MYR)

NEW ZEALAND (Feb 24 / NZ $)

SINGAPORE (Feb 24 / S$)

SOUTH KOREA (Feb 24 / Won)

TAIWAN (Feb 24 / TW $)

THAILAND (Feb 24 / Baht)

AMERICAS

CANADA

TORONTO (Feb 24 / Can $)
4 pm close

MONTREAL (Feb 24 / Can $)
4 pm close

MEXICO (Feb 24 / Peso)
12.30pm

AFRICA

SOUTH AFRICA (Feb 24 / Rand)

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	MONDAY FEBRUARY 23 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	FRIDAY FEBRUARY 20 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (73)	205.29	-0.3	185.20	166.02	191.98	204.51	0.5	3.77	205.97	186.84	166.07	195.08	203.58	243.87	190.26	222.05
Austria (23)	202.82	2.5	182.97	164.02	189.67	189.54	1.2	1.72	197.81	179.25	159.50	187.36	187.23	213.59	175.14	183.27
Belgium (26)	282.07	1.8	254.47	228.12	263.79	258.35	0.6	2.70	277.19	251.17	223.49	262.53	256.92	282.07	227.73	230.87
Brazil (30)	233.30	-0.0	210.47	188.67	218.17	484.87	-0.0	1.73	233.30	211.40	188.10	220.96	484.87	322.44	184.84	232.06
Canada (121)	222.69	0.2	200.90	180.10	208.25	229.55	0.4	1.74	222.28	201.42	179.22	210.52	228.52	233.66	178.27	200.65
Denmark (34)	464.70	1.0	419.23	375.82	434.58	433.32	-0.3	1.33	460.07	416.90	370.95	435.75	434.47	468.39	348.27	374.94
Finland (28)	352.02	3.9	317.57	284.68	329.19	408.38	2.6	2.09	338.76	306.97	273.14	320.85	393.02	352.02	243.28	258.16
France (79)	257.78	1.8	232.56	208.48	241.07	243.95	0.6	2.20	253.16	229.40	204.12	239.78	242.58	257.78	209.81	216.50
Germany (58)	252.69	2.5	227.96	204.35	236.31	236.31	1.2	1.29	246.61	223.47	198.84	233.58	233.58	252.69	192.01	192.01
Hong Kong, China (68)	341.75	0.3	308.31	276.38	319.59	339.90	0.3	4.71	340.64	308.67	274.65	322.63	338.71	580.03	262.93	492.03
Indonesia (27)	49.91	0.6	45.02	40.36	46.67	293.91	4.4	2.29	49.62	44.96	40.01	46.99	281.55	254.90	27.67	245.02
Ireland (16)	474.63	1.7	428.18	383.84	443.86	483.72	0.6	2.07	466.77	422.96	376.35	442.08	480.97	474.63	321.33	337.13
Italy (54)	132.49	0.9	119.53	107.15	123.90	175.58	-0.3	1.36	131.26	118.94	105.83	124.32	176.10	135.83	89.01	90.73
Japan (481)	102.04	-0.8	92.06	82.52	95.43	82.52	-0.5	0.96	102.87	93.22	82.95	97.43	82.95	141.12	86.52	118.45
Malaysia (107)	210.97	-2.4	190.39	170.62	197.29	311.99	-0.3	2.33	216.09	195.81	174.23	204.66	312.92	660.85	113.56	655.64
Mexico (29)	1497.65	-1.4	1351.10	1211.18	1400.55	14155.75	-0.7	1.59	1518.41	1375.91	1224.27	1438.12	14250.65	1801.98	1326.16	1424.27
Netherlands (19)	446.71	2.3	403.00	361.26	417.75	413.35	1.0	2.14	436.66	395.70	352.09	413.59	409.19	448.71	330.32	343.50
New Zealand (14)	74.63	-1.6	67.33	60.36	69.79	68.75	-1.4	4.51	75.87	68.75	61.17	71.85	69.72	95.47	71.49	87.84
Norway (38)	303.27	0.9	273.60	245.26	283.61	309.65	0.0	2.02	300.44	272.24	242.24	284.55	309.63	374.84	281.82	321.23
Philippines (22)	89.58	-1.2	80.79	72.43	83.75	181.20	-0.7	1.12	90.64	82.14	73.08	85.85	182.40	207.89	57.54	204.91
Singapore (42)	215.26	-0.2	194.20	174.09	201.31	164.13	0.5	1.95	215.71	195.46	173.92	204.30	163.37	437.37	144.01	437.37
South Africa (43)	278.16	-0.4	250.94	224.95	260.13	300.55	-0.5	2.86	279.26	253.06	225.17	264.50	302.06	370.12	227.68	361.62
Spain (33)	320.57	1.2	289.21	259.26	299.78	370.15	0.0	1.99	316.67	286.95	255.32	299.92	370.25	320.57	206.12	211.60
Sweden (49)	511.17	1.2	461.15	413.40	478.03	606.15	0.3	1.82	504.93	457.55	407.12	478.24	604.43	538.94	405.00	434.01
Switzerland (31)	381.40	1.3	344.08	308.45	356.69	343.21	0.1	0.98	376.64	341.30	303.69	356.73	343.02	381.40	245.34	250.94
Thailand (39)	31.59	-1.2	28.50	25.55	29.54	54.74	-0.9	8.55	31.98	28.98	25.77	30.27	55.26	86.40	13.10	86.40
United Kingdom (213)	364.77	-0.3	329.08	295.00	341.12	329.06	-0.7	2.98	365.72	331.39	294.87	346.38	331.39	365.72	271.72	281.03
USA (638)	424.24	0.4	382.73	343.09	396.74	424.24	0.4	1.49	422.44	382.79	340.61	400.10	422.44	424.24	299.79	325.68
Americas (818)	383.90	0.4	346.34	310.47	359.01	324.18	0.4	1.50	382.38	346.49	308.31	362.18	322.84	383.90	274.59	298.29
Europe (701)	318.92	1.0	287.71	257.91	298.24	302.65	0.1	2.14	315.65	286.03	254.51	298.96	302.37	318.92	237.94	242.74
Nordic (149)	450.03	1.6	405.99	363.95	420.85	463.85	0.6	1.80	442.91	401.34	357.11	419.49	461.30	454.93	355.77	378.66
Pacific Basin (871)	111.90	-0.7	100.95	90.50	104.65	91.77	-0.3	1.61	112.69	102.12	90.86	106.73	92.06	158.99	95.32	139.78
Euro-Pacific (1572)	198.24	0.5	178.84	160.32	185.38	171.07	-0.1	1.97	197.34	178.82	159.11	186.91	171.16	209.12	172.03	182.66
North America (759)	411.32	0.4	371.07	332.64	384.65	411.07	0.4	1.50	409.61	371.17	330.27	387.96	409.32	411.32	292.34	316.12
Europe Ex. UK (489)	286.97	1.8	258.89	232.08	268.37	280.56	0.6	1.67	281.97	255.51	227.35	267.06	279.03	286.97	213.38	216.94
Pacific Ex. Japan (390)	202.43	-0.3	182.62	163.71	189.30	202.33	0.3	3.87	203.08	184.02	163.74	192.34	201.73	318.98	161.31	317.77
World Ex. US (1795)	201.37	0.4	181.67	162.85	188.32	177.49	0.0	1.96	200.55	181.73	161.70	189.95	177.56	212.89	175.30	186.51
World Ex. UK (2220)	264.52	0.5	238.63	213.92	247.37	240.73	0.3	1.55	263.20	238.50	212.21	249.28	239.96	264.52	211.16	226.05
World Ex. Japan (1952)	358.47	0.6	323.40	289.91	335.23	352.57	0.3	1.82	356.40	322.96	287.37	337.56	351.53	358.47	271.90	288.24
The World Index (2433)	273.00	0.4	246.29	220.78	255.30	248.66	0.2	1.72	271.86	246.35	219.20	257.49	248.16	273.00	216.61	230.76

 CONSTITUENT CHANGES WITH EFFECT 25/2/98: Addition: Starwood Hotels & Resorts (Medium-Small Cap) (USA). Deletion: ITT Corporation (USA). Market closed 24/2/98: Brazil.

Emerging markets: IFC investable indices

Feb 23

Market: Latin America, Argentina, Brazil, Chile, Colombia, Mexico, Peru, Venezuela, East Asia, China, Korea, Philippines, Taiwan, China, South Asia, India, Indonesia, Malaysia, Pakistan, Sri Lanka, Thailand, Europe/Mideast/Africa, Czech Rep, Egypt, Greece, Hungary, Israel, Jordan, Morocco, Poland, Portugal, Russia, S Africa, Slovakia, Turkey, Zimbabwe, Regions, Composite, Latin America, Asia, EMEA

Base date: Dec 1988=100 except those noted which are: ... Latest indices were unavailable for this edition.

NEW YORK STOCK EXCHANGE PRICES

4 pm close February 24

1997/98 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
- A -										
[illegible]										
- B -										
[illegible]										
- C -										
[illegible]										
- D -										
[illegible]										
- E -										
[illegible]										
- F -										
[illegible]										
- G -										
[illegible]										
- H -										
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- I -										
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- J -										
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- K -										
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- L -										
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- M -										
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- N -										
[illegible]										
- O -										
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- P - Q -										
[illegible]										
- R -										
[illegible]										
- S -										
[illegible]										
- T -										
[illegible]										
- U -										
[illegible]										
- V -										
[illegible]										
- W -										
[illegible]										
- X - Y - Z -										
[illegible]										

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1997. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. ds-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
¶ Dealings suspended.

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Feb 23	Feb 20	Feb 19	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
Industrials	8410.20	8413.94	8375.58	8451.06 (18/2/98)	6391.69 (11/4/97)	8451.06 (18/2/98)	41.22 (8/7/32)
Home Bonds	105.20	105.21	105.17	105.48 (15/1/98)	101.09 (14/4/97)	105.48 (15/1/98)	54.99 (1/10/81)
Transport	3497.51	3452.42	3504.61	3575.07 (12/2/98)	2222.07 (2/1/97)	3575.07 (12/2/98)	13.23 (8/7/32)
Utilities	268.80	270.03	268.54	272.01 (31/12/97)	209.47 (25/4/97)	272.01 (31/12/97)	10.50 (8/7/32)

DJ Ind. Day's high 8490.92 (8449.07) Low 8331.06 (8291.88) (Theoretical‡)
Day's high 8448.57 (8424.40) Low 8374.83 (8318.53) (Actual‡)

Standard and Poors	Feb 23	Feb 20	Feb 19	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
Composite‡	1038.14	1034.21	1028.28	1038.14 (23/2/98)	737.01 (2/1/97)	1038.14 (23/2/98)	4.40 (1/6/32)
Industrials¶	1209.34	1204.88	1197.73	1209.34 (23/2/98)	865.42 (11/4/97)	1209.34 (23/2/98)	3.52 (30/6/32)
Financial¶	124.83	123.90	123.22	124.83 (23/2/98)	80.75 (2/1/97)	124.83 (23/2/98)	7.13 (4/5/74)
Others							
NYSE Comp.	538.41	537.48	535.01	538.41 (23/2/98)	389.47 (11/4/97)	538.41 (23/2/98)	4.84 (26/4/42)
Amex Comp	699.08	699.19	698.98	721.90 (7/10/97)	541.20 (28/4/97)	721.90 (7/10/97)	324.20 (10/7/96)
NASDAQ Cmp	1751.78	1728.13	1727.01	1761.78 (23/2/98)	1201.00 (2/4/97)	1761.78 (23/2/98)	54.87 (3/10/74)
Russell 2000	458.28	453.89	454.21	465.21 (13/10/97)	335.85 (25/4/97)	465.21 (13/10/97)	123.38 (7/12/93)

RATIOS

	Feb 20	Feb 13	Feb 6	Year ago
Dow Jones Ind. Div. Yield	1.66	1.66	1.69	1.94
	Feb 18	Feb 11	Feb 4	Year ago
S & P Ind. Div. yield	1.40	1.42	1.43	1.72
S & P Ind. P/E ratio	27.24	27.61	27.31	22.84

US DATA

MARKET ACTIVITY

Volume (million)	Feb 23	Feb 20	Feb 19
NYSE	558,400	594,300	589,380
Amex	24,810	25,051	24,158
NASDAQ	740,888	755,645	749,650

NYSE TRADING ACTIVITY

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Compaq	10,326,400	34⅝	+½
Motorola	5,150,100	60¼	+¼
Ucar Intl	4,533,600	34	−5⅞
Cendant	4,497,900	37⅛	−⅛
Ph Morris	4,115,100	41⅝	−⅛
Schlmbrg	3,886,000	72⅛	−2⅝
Lucent Tec	3,729,300	107⅝	+5⅛
Merck	3,591,200	130¾	+⅝
Adv Micro	3,575,580	20⅛	+¼
AT & T	3,238,300	62¾	+⅞

NASDAQ TRADING ACTIVITY

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Microsoft	28,959,000	81⅝	+3⅞
Intel	18,889,800	94⅛	+2¼
Dell Cmp	12,110,400	130¾	+4⅛
Oracle	11,079,800	26⅝	+1⅞
Appld Mat	8,490,400	37⅞	+⅞
Ascend Com	7,795,500	36⅝	+1⅛
Ciena	7,143,800	40⅛	−1⅞
Worldcom	6,982,200	39⅛	+⅛
Cisco Sys	6,231,000	65⅞	−⅛
Adaptec	6,175,800	22¾	−⅛

[illegible]

INDEX FUTURES

S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Mar	1041.40	1036.50	−4.80	1041.70	1034.80	93,036	379,703
Jun	1050.30	1047.20	−6.10	1050.50	1045.50	1,411	16,534
Nikkei 225	**Open**	**Sett price**	**Change**	**High**	**Low**	**Est. vol.**	**Open int.**
Mar	16590.0	16160.0	−430.0	16610.0	16120.0	28,621	186,769
Jun	16500.0	16130.0	−430.0	16520.0	16080.0	4,856	58,801

CAC-40 (200 x Index)	Open	Sett Price	Change	High	Low	Est. vol	Open int.
Feb	3254.0	3266.0	−5.0	3286.0	3252.0	23,020	38,546
Mar	3260.5	3274.5	−5.0	3296.0	3260.5	11,690	28,364
DAX							
Mar	4617.0	4614.5	−10.5	4641.5	4580.0	20,359	90,844
Jun	4649.0	4646.5	−10.5	4672.0	4621.5	935	50,032

OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Feb	2670.00	2678.00	−4.75	2679.00	2665.00	7,991	17,223
Mar	2677.00	2687.25	−3.25	2688.25	2673.50	5,996	14,882
SOFFEX							
Mar	6978.5	6932.0	−45.0	7018.0	6932.0	4,215	19,173
Apr	6962.5	6937.8	−77.4	6982.6	−	24	1,578

Open interest figures for previous day.

JAPAN

	Feb 24	Feb 23	Feb 20	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
Nikkei 225	16198.00	16609.43	16756.24	20681.1	14664.4	38915.9	85.25

Day's high: 16633.97 Day's low: 16167.32

TOKYO TRADING ACTIVITY — Volume : 372,000,000

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Yamaichi Sec	15,945,000	4	−1
Toshoku	10,094,000	6	−1
Fuji Bank	8,711,000	820	−39
Nip Steel Cp	7,521,000	221	−6
Sakura Bk	4,891,000	490	−21
JAL	4,665,000	475	−6
Hitachi	4,262,000	[illegible]	−34
Nip Dry-Chm	4,218,500	1010	−45
Bk Tk-Mitsbhi	3,840,000	1700	−40
NKK Corp	3,729,000	145	−2

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Toko Elect	524	+61	+13.2
Toyo Chem	561	+46	+8.5
Daitoh ...	365	+22	+6.4
[illegible]	1345	+80	+6.4
Downs			
The Daiei	559	−109	−16.2
Ist Denko	155	−23	−12.9
Marusho	455	−55	−10.8
Taisei Cp	301	−34	−10.2

FRANCE

	Feb 24	Feb 23	Feb 20	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
CAC 40	3262.63	3273.48	3262.50	3281.71	2256.37	3281.71	984.61

Day's high: 3286.44 Day's low: 3249.11.

PARIS TRADING ACTIVITY — Volume : 468,582,580

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
France Telcm	1,366,090	276.3	+1.9
Elf Aquitn	1,242,227	645	−27
Rhne-Plnc A	1,225,521	257	+1.9
Total B	873,958	671	−22
Axa-UAP	732,074	585	−7
C.Fn.Paribas	568,267	580	−13
Usinor	531,943	89.25	−0.75
BNP	434,968	352.5	−6.1
Dexia France	420,978	747	−17
Alcatel	345,802	766	

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Granicom	420.0	+62.0	+17.3
Fin de L'Odet	272.5	+34.5	+14.5
Sogeris	105.0	+11.4	+12.2
Grodet	26.0	+2.7	+11.6
Downs			
Mumm et Cie	901.0	−97.0	−9.7
Bge Transat	187.5	−19.8	−9.6
Natl de Nav	119.2	−10.6	−8.2
Coora	35.0	−2.95	−7.8

GERMANY

	Feb 24	Feb 23	Feb 20	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
DAX	4596.54	4657.54	4682.55	4687.54	2541.77	4687.54	331.19

Day's high: 4612.41 Day's low: 4573.27.

FRANKFURT TRADING ACTIVITY

[illegible]

UK

	Feb 24	Feb 23	Feb 20	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
FTSE 100	5651.0	5702.5	5751.6	5761.6	4056.6	5761.6	986.9

Day's high: 5702.8 Day's low: 5584.9.

LONDON TRADING ACTIVITY

[illegible]

Dow Jones

[illegible]

FTSE Eurotop 300

[illegible]

WORLD MARKETS AT A GLANCE

Country	Index	Feb 24	Feb 23	Feb 20	1997/98 High	1997/98 Low	Yield	P/E
Argentina	General	23472.78	22603.75	22548.84	29771.70 22/10/97	18237.40 9/1/97	2.9	19.2
Australia	All Ordinaries	2686.2	2655.1	2645.1	2778.20 25/9/97	2299.20 28/10/97	3.4	19.5
	All Mining	817.1	823.8	820.5	987.10 24/2/97	541.30 27/11/97		
Hungary	Bux	8085.95	8090.91	7941.19	8493.80 5/8/97	4281.30 8/1/97	na	na
India	BSE Sens.	3484.69	3478.40	3417.30	4548.02 5/8/97	3209.55 28/1/98		
	Crisil 500	628.67	626.34	617.22	843.28 5/8/97	594.39 29/1/98	na	na
Poland	WIG	17359.2	17344.2	17130.1	18339.40 18/2/97	13228.80 12/1/98	0.9	15.5
Portugal	BVL 30							
	PSI 20						1	36.2

[illegible]

NASDAQ NATIONAL MARKET

4 pm close February 24

[illegible]

AMEX PRICES

4 pm close February 24

[illegible]

EASDAQ

[illegible]

Greenspan gives mixed signals on rates

WORLD OVERVIEW

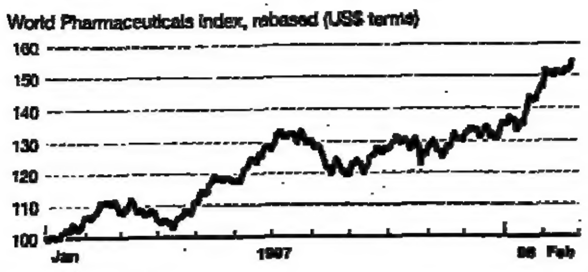
Worries about the disinflationary implications of the Asian crisis came back into focus yesterday, *writes Jonathan Ford.*

The Tokyo stock market slipped as investors expressed disappointment at the government's failure to adopt radical measures to shore up the country's sagging economy. The Nikkei 225 average lost nearly 2.5 per cent to close at its lowest level in a month.

In the US, Alan Greenspan, chairman of the Federal Reserve, caused a brief wobble in financial markets after he gave mixed signals about the future direction of US interest rates in testimony to Congress.

World pharmaceuticals: not in need of a fix

World Pharmaceuticals index, rebased (US$ terms)



Source: Datastream/ICV

Investors had been looking for assurances that Mr Greenspan would take account of the disinflationary pressures from Asia before deciding whether to move US interest rates.

"Investors wanted Mr Greenspan to say clearly that US policy would act pre-emptively to ward off the risk of deflation," said Joe Rooney, global strategist at Lehman Brothers.

The dollar firmed slightly against the mark following Mr Greenspan's remarks.

In Europe, there was interest in pharmaceutical shares following the collapse of Glaxo Wellcome's merger with SmithKline Beecham.

A number of leading drug stocks strengthened after analysts predicted investors would switch out of the UK duo into their European competitors.

There was also speculative interest in some second-line players. Pharmacia & Upjohn of Sweden firmed on hopes it might be a bid target.

Reaction to this setback gave further evidence of the strength of European markets, where any short-term weakness is seen as a buying opportunity.

Although most leading bourses opened lower, and buying was more muted than in recent days, several markets continued record-breaking runs.

Amsterdam, Brussels and Madrid saw closing highs in spite of a weak start for the Dow, which drifted lower on Mr Greenspan's remarks.

One reason for Europe's resilience was suggested in a Reuters survey released yesterday that noted that concerns about Asia and its knock-on effect on US earnings growth have imbued continental fund managers with a strong domestic investment bias.

European managers who responded said they allocated 47 per cent of their global equity portfolios to European markets, including the UK.

This compares with 41 per cent for US managers and less than 40 per cent for their UK counterparts.

Mr Rooney said Europe was also benefiting from strong interest from US managers who are increasing their weightings because of a lack of investment alternatives.

Wall Street recovers from early sell-off

AMERICAS

Wall Street had a mixed start with losses among the large drug companies and a dull opening for bonds keeping a tight rein on sentiment, *writes John Labate in New York.*

By 12.30pm the Dow Jones Industrial Average had clawed back much of the morning sell-off, but remained weak with a decline of 1.49 at 8,408.71. The broader Standard & Poor's 500 index was 1.27 lower at 1,036.87.

The market's main indices were lower throughout much of the morning testimony of Alan Greenspan, chairman of the Federal Reserve, before Congress.

In his speech, Mr Greenspan suggested the Asian crisis could dampen inflationary tendencies from the US labour and consumption sectors.

Investors in the bond market used Mr Greenspan's speech as an occasion to sell. The benchmark long bond price fell 1/32 to 102 3/32, lifting the yield to 5.959 per cent.

Technology stocks pushed higher, however. The Nasdaq composite index was up 3.09 to 1,754.85, adding to Monday's record-breaking close.

Despite the downbeat tone in the Dow, several components pushed sharply higher. J.P. Morgan climbed $3¾ to $116 1/16 after announcing a 5 per cent cut in its worldwide staff. Retailer Wal-Mart rose $1 1/16 to $47¼ after releasing strong quarterly earnings.

Shares in Chevron, the oil company, also improved from Monday's sharp sell-off on falling oil prices. Yesterday Chevron's shares were $2 1/16 higher at $79 1/16.

However, following the termination of merger talks between Glaxo Wellcome and Smithkline Beecham of the UK, pharmaceutical shares worsened. Schering-Plough lost $1⅛ to $75 and Merck fell $1⅛ to $128⅜.

Computer stocks were more mixed. Motorola lost $2 1/16 to $57¼ after a report that the semiconductor producer was having trouble in its wireless business.

But Microsoft climbed $2⅝ to $84¼ after a new release of its Internet Explorer product.

Advanta shares plunged $6 1/16 or more than 22 per cent to $24¼ after S&P cut its rating of the financial service company's senior debt.

TORONTO was flat at midsession as investors awaited the Canadian federal budget due later in the day.

The TSE-300 composite index was 1.89 weaker by midsession at 6,940.30 in volume of C$34m.

Global Stone Corp rose 10 cents to C$6.75 in hefty turnover after the Belgian-based Carmeuse said it intended to acquire the Ontario limestone company in a C$200m hostile takeover bid.

Bank of Nova Scotia picked up 15 cents to C$34.90 as it said it had continued its strong performance during the first quarter of the year ended January 31, boosting net income by 11 per cent over the same period last year.

Bank of Montreal jumped 65 cents to C$75.65 as it reported a 12 per cent rise in first-quarter net income.

Mexico City turns up

MEXICO CITY recovered from early losses to move higher by midsession, helped by positive comments on the Mexican economy from Alan Greenspan, chairman of the US Federal Reserve.

In his Humphrey Hawkins testimony to Congress, Mr Greenspan said that Mexico had recovered from its financial problems of 1995 better than expected and he was not worried about a new crisis there.

The remarks helped distract market attention from concerns about the January trade balance and the IPC index rose 55.44 to 4,616.45.

BUENOS AIRES opened slightly lower on profit-taking as the market consolidated after two rising sessions.

However, dealers said they expected the shares to return to a rising track later in the day.

At midsession, the Merval index was 2.37 lower at 678.19.

Both **SAO PAULO** and **CARACAS** were closed for their national carnival holidays.

Failed merger boosts rivals

EUROPE

The failure of SmithKline Beecham and Glaxo Wellcome to go ahead with their proposed mega-merger proved a mixed blessing to the UK companies' continental European counterparts.

In Germany, shares in the big three chemicals and drugs groups were higher on the view that the failure of the UK merger would lessen any risk of their being left behind if the consolidation in the pharmaceuticals industry intensified.

Bayer rose 53 pfg to DM76.88, Hoechst was 25 pfg higher at DM68.85 and BASF gained 75 pfg to DM63.20. Among the smaller groups, Schering, often cited as a possible takeover target, was DM1.35 higher at DM204.50, but Schwarz Pharma, also seen as possible prey, was marked DM1.85 lower at DM148.65.

Certificates in Switzerland's Roche sprinted to a day's high of SFr16,795 with some investors said to be switching out of the UK. But the shares subsequently turned back to close SFr65 lower at SFr16,535.

Novartis, still suffering from a recent downgrade by Goldman Sachs, turned back from a day's high of SFr2,610 to close SFr17 weaker at SFr2,571. Clariant picked up SFr17 at SFr1,465, but Ciba eased SFr0.50 to SFr259. Ares-Serono, which reported 1997 results in line with expectations, dropped SFr155 to SFr2,135.

In Sweden, Pharmacia & Upjohn, the Swedish-US drugs giant, gained SKr5.50 to SKr320 on the view that the company had now become a more likely merger target, while Astra edged SKr1.50 higher to SKr159.

Among the French groups, Synthelabo eased FFr1 to FFr789, but other pharmaceutical stocks firmed. Rhône-Poulenc rose FFr1.90 to FFr267, while Sanofi added FFr5 at FFr665. Sanofi is scheduled to report 1997 earnings today, with analysts expecting a net profit of about FFr1.9bn.

FRANKFURT featured a 16.5 per cent plunge in SGL Carbon after the US business of its competitor, Showa Denko, paid a $29m fine following a price-fixing investigation which also involved the German company.

Analysts noted that SGL, down DM39 to DM199.50, was being investigated, along with Showa Denko, over allegations they fixed the prices of graphite electrodes between 1993 and 1997. In its statement announcing yesterday's fine, the US justice department said other companies were likely to face penalties.

It added that in addition to paying the fine, Showa Denko had agreed to implicate others involved in the alleged conspiracy.

The broad market was little changed in late electronic trade as the carnival holiday kept business to a minimum. The Xetra Dax index finished 6.11 lower at 4,604.55.

FTSE Actuaries Share Indices — European series

February 24

National & Regional Markets	Ecu index	Day's %	change points	Yield gross %	xd adj ytd	Total return (Ecu)
FTSE Eurotop 300	1097.83	–0.28	–3.12	2.06	1.39	1107.74
FTSE Eurotop 100	2519.61	–0.80	–20.44	–	–	–
FTSE Eurotop 300 Regions						
300 UK	1101.79	–0.84	–9.33	2.87	2.88	1123.23
300 Ex-UK	1096.21	+0.04	+0.41	1.56	0.54	1099.55
300 Eurobloc	1077.27	+0.22	+2.41	1.78	0.82	1082.20
300 Ex-Eurobloc	1115.28	–0.63	–7.10	2.28	1.88	1126.76
FTSE Eurotop 300 Economic Groups						
Resources	908.10	–0.77	–7.05	3.00	2.09	922.85
General Industries	997.50	+0.44	+4.38	1.96	1.01	1001.82
Consumer Goods	1110.84	–2.33	–26.48	1.64	0.55	1123.19
Services	1056.49	+0.50	+5.24	2.20	1.14	1085.90
Utilities	1163.06	+0.84	+9.68	2.47	1.84	1178.94
Financials	1232.39	+0.11	+1.34	1.97	1.93	1241.32

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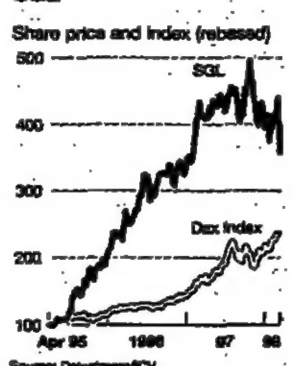
SGL

Share price and index (rebased)



Source: Datastream/ICV

PARIS ran into heavy selling among oils and banks and ended with the CAC 40 index 10.85 lower at 3,262.63, but volume was modest.

Recent wobbles for the dollar plus a negative note from Société Générale sent oils rushing for cover. Elf Aquitaine fell FFr27 or 4 per cent to FFr645 and Total retreated FFr22 to FFr611. SocGen moved from "neutral" to "underperform" on the sector and seemed to pick out Elf as a loser.

CCF reported solid earnings, but said it would increase capital if its bid for CIC is successful. The shares fell FFr4.20 to FFr431.9. BNP came off FFr6.10 to FFr358.5 and Paribas, which puts out a results statement tomorrow, lost FFr13 to FFr580.

AMSTERDAM extended its record run, with strong gains for Aegon and Akzo Nobel pushing the AEX index up 8.08 to 1,045.76. Options activity also supported prices. Dealers said new account basket buying had been heavy over the past two days.

Akzo Nobel rose Fl 10.50 to Fl 410.30 following Monday's top of the range results and an upgrade from Merrill Lynch. The US broker has lifted its target price on the shares to Fl 440 and stepped up earnings estimates for 1998 by 6.5 per cent.

Aegon was said to be a beneficiary of merger talk plus switching out of DSM, which ran into profit-taking after the recent acquisition-driven run. Aegon ended Fl 6.70 or 3.1 per cent better at Fl 225.80.

ZURICH retreated as Wall Street's weak opening weighed on prices, and the SMI index finished 41.1 lower at 6,945.0.

Beneficiaries of merger talk hit profit-taking. CS Group lost SFr1.50 to SFr259 while Baloise, the insurer, tumbled SFr52 to SFr3,100.

Watchmaker SMH gained SFr31 to SFr880, still supported by its unexpectedly good results last week.

MADRID stormed to its eighth successive record as the banking sector swung back into favour after Monday's modest profit-taking.

BBV rose Pta180 to Pta6,980 and BCH Pta190 to Pta4,490. The general index ended 9.62 higher at 751.41.

Written and edited by Michael Morgan, Jeffrey Brown, Jonathan Ford, Paul Gregan and Peter Hall

SOUTH AFRICA

Shares in Johannesburg retreated as two key sectors came under pressure. Weaker bullion prices hit gold stocks while oil shares lost ground as the crude price remained weak following the agreement over Iraq.

Oil giant Sasol lost nearly 4 per cent to R42 and Engen slipped 65 cents to R18.25. Gold stocks fell 2.2 per cent as bullion dropped below $300 an ounce. The all-share index slipped 38 to 6,788.

EMERGING MARKET FOCUS

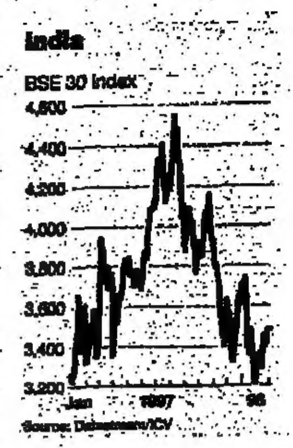
India on hold for poll result

India's stock markets are awaiting the results of the country's general election with interest – ready to leap if any party emerges with a clear mandate to form a government.

For the moment, however, shares are marking time – largely immune to the campaign. The BSE-30 index, which closed today at 3,484.69, appears range-bound between 3,300 and 3,550.

India

BSE 30 index



Source: Datastream/ICV

Political pundits expect the rightwing Bharatiya Janata party, India's largest party, to gain ground. But they expect it will not get an outright majority.

They also predict that Congress, the party that has governed India for most of the years since independence, will improve its position after a spirited campaign led by Sonia Gandhi, widow of the former prime minister Rajiv Gandhi.

This opens the door to a period of political horse-trading as the two big parties try to win the support of smaller rivals to form a coalition government. The BJP will probably have the chance to do so. But many of the smaller parties are suspicious of its Hindu nationalism and higher-caste leadership – and may opt for a "stop the BJP" coalition instead.

The result is finely balanced and depends on the outcome of dozens of local contests across the country. A seat here or there to the BJP – or a particular regional party – could decide who gains power.

Equities have moved ahead this week on signs of BJP strength. But the main reaction will take place as exit polls emerge in the first week of March – followed by actual results.

It could take several weeks before a government actually cobbles together a working majority – weeks in which share prices will be volatile. "By March 15 the market may perhaps have found the direction it is going to take," said Rukshad Shroff, strategist at Jardine Fleming.

If the BJP does win an outright majority, Mr Shroff said there will be "a 10 per cent uptick very quickly" – equivalent to a 300 to 400 point rise in the BSE 30 index. Investors like the prospect of stability.

But while Bombay's local stockbrokers – who come from the BJP-supporting trader community – are enthusiastic at the thought of a victory for the anti-socialist party, foreign investors worry that its nationalist rhetoric could affect policy decisions.

They are likely to wait until a BJP government announces its first budget in May or June before piling in whole-heartedly. Foreign investors may be more comfortable with a Congress-led government.

What the markets dread is an inconclusive result and a return to the instability of the last parliament. Then, a coalition of 13 parties, which included neither Congress nor the BJP, struggled to govern with a minority of MPs.

"If that happens, the BSE 30 index will fall by at least 100 points and stay depressed for some time," said Ajit Dayal, director of Quantum Financial Services.

Krishna Guha

Nikkei drops to low for month

ASIA PACIFIC

Growing doubts about whether the Japanese government will implement appropriate stimulus measures dampened investor sentiment in **TOKYO**, taking share prices to their lowest level this month, *writes Michiyo Nakamoto in Tokyo.*

The Nikkei 225 Average dropped 411.49 or 2.48 per cent to 16,198, the lowest level since January 16, after fluctuating between a high of 16,633.87 and a low of 16,167.33.

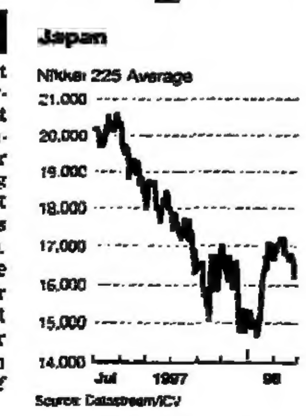
Government officials yesterday sent stronger signals to the public that they were sticking to their tight fiscal policy in spite of strong pressure at the G7 meeting in London last weekend for further steps to lift Japan out of its economic gloom.

Koji Omi, head of the Economic Planning Agency, indicated there could be a further stimulus package in mid-March, but he underlined it would not include tax cuts or new spending.

Trading was listless with volume at just 372m shares. The Topix index of all first-section stocks fell 19.31 to 1,234.77.

Japan

Nikkei 225 Average



Source: Datastream/ICV

Fuji Bank fell 39 to 880 in heavy trading after its credit rating was downgraded by Moody's. In spite of the downgrade, Fuji Bank said it was confident it could meet stricter capital adequacy ratios required in April.

Osaka was plagued by similar weakness with the OSE Average falling 280.14 to 16,551.57.

SYDNEY continued to gain ground, thanks partly to a strong banking sector. ANZ jumped 20 cents to A$9.74 on news of a programme of streamlining involving 8 per cent staff cuts. Commonwealth added 18 cents to A$17.73 and NAB 23.5 cents to A$20.09.

Oil price worries pushed BHP lower, sending the shares down 35.5 cents to A$14.05. The All Ordinaries index ended 11.1 higher at 2,666.2.

MANILA dipped 15.22 to 2,100.78 on the composite index following a downgrade by Standard & Poor's which lowered the Philippines' currency rating. Oil price weakness sent Petron down 20 centavos to 5.40 pesos. Manila Electric fell on worries about customer rebates, possibly in the region of 10bn pesos. The B shares came off 1 peso to 117 pesos.

HONG KONG recouped early losses as HSBC overcame initial weakness to close HK$2 higher at HK$206 in the wake of Monday's results, which were in line with expectations. The Hang Seng index picked up from a low of 10,491.20 to end just 1.87 weaker at 10,683.34.

China plays outperformed, boosted by news that the Chinese government had given its blessing to two securities companies setting up mutual funds in a move aimed at expanding institutional investment in the market. The China-Affiliated Corporation index gained 3.7 per cent to 1,609.94, while H shares surged 8.8 per cent.

KUALA LUMPUR was spurred higher by comments from Daim Zainuddin, the government's economic adviser, that the administration's priority was to restore confidence in the country's economy among foreign investors.

The composite index finished 9.38 or 1.3 per cent higher at 729.84.

TAIPEI saw early advances reversed as heavy profit-taking emerged after seven sessions of gains. The weighted index, up 23 per cent since January 12, lost 80.54 at 9,066.46.

JAKARTA closed 2 per cent lower as profit-taking knocked share prices, prompted by continuing uncertainty about the government's currency board proposals.

Investors were also reported to be taking a cautious stance ahead of next week's meeting of the electoral college that will elect the president.

The composite index ended 10.15 lower at 494.89 in moderate trading.